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*Committee on Economic and Monetary Affairs*

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## **DRAFT REPORT**

Enquiry report on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries  
(2013/2277(INI))

Committee on Economic and Monetary Affairs

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**CONTENTS**

	<b>Page</b>
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION .....	3
EXPLANATORY STATEMENT.....	11

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### **on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries (2013/2277(INI))**

*The European Parliament,*

- having regard to the Treaty on the Functioning of the European Union, and in particular Article 7, Article 136 in combination with Article 121 , and Article 174 thereof,
- having regard to the Charter of Fundamental Rights of the European Union,
- having regard to the Treaty on European Union and in particular Article 3 thereof,
- having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability<sup>1</sup>,
- having regard to the Treaty establishing the European Stability Mechanism (ESM),
- having regard to its resolution of 23 October 2013 on the European Semester for economic policy coordination: implementation of 2013 priorities<sup>2</sup>,
- having regard to its resolution of 4 July 2013 on the European Parliament’s priorities for the Commission Work Programme 2014<sup>3</sup>,
- having regard to its resolution of 12 June 2013 on the Preparations for the European Council meeting (27-28 June 2013) - Democratic decision making in the future EMU<sup>4</sup>,
- having regard to its resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup ‘Towards a genuine Economic and Monetary Union’<sup>5</sup>,
- having regard to its resolution of 6 July 2011 on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken<sup>6</sup>,
- having regard to its resolution of 20 October 2010 on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term

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<sup>1</sup> OJ L 140, 27.5.2013, p.1.

<sup>2</sup> Texts adopted, P7\_TA(2013)0447.

<sup>3</sup> Texts adopted, P7\_TA(2013)0332.

<sup>4</sup> Texts adopted, P7\_TA(2013)0269.

<sup>5</sup> Texts adopted, P7\_TA(2012)0430.

<sup>6</sup> Texts adopted, P7\_TA(2011)0331.

report)<sup>1</sup>,

- having regard to Rule 48 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgetary Control, the Committee on Employment and Social Affairs and the Committee on Constitutional Affairs (A7-0000/2013),
- A. whereas the Troika, consisting of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF), originated in the decision of 25 March 2010 by euro area Heads of State and Government to provide conditional bilateral loans to Greece, and has since also been operational in Portugal, Ireland and Cyprus;
- B. whereas, within the Troika, the Commission is responsible for negotiating the conditions for financial assistance for euro area Member States ‘in liaison with the ECB’ and ‘wherever possible together with the IMF’, the financial assistance hereinafter referred to as ‘EU-IMF assistance’;
- C. whereas the Troika is the basic structure for negotiation between the official lenders and the governments of the recipient countries, as well as for reviewing the implementation of adjustment programmes; whereas for the European side, the final decisions as regards financial assistance and conditionality are taken by the Eurogroup;
- D. whereas the Troika together with the Member State concerned is also responsible for the preparation of formal decisions of the Eurogroup;
- E. whereas several Member States outside the euro area have already received or are receiving EU assistance under Art. 143 TFEU, in conjunction with the IMF;
- F. whereas the EU created several ad hoc mechanisms to provide financial assistance for euro area countries, first through bilateral loans, including from several non-euro area countries, then through the EFSF and EFSM, and finally through the ESM, which was meant to replace all the other mechanisms;
- G. whereas a Memorandum of Understanding (MoU) is an agreement between the Member State concerned and the Troika, which results from negotiations and whereby a Member State undertakes to carry out a number of actions in exchange for financial assistance; whereas it is stipulated in the ESM Treaty that a Member State requesting assistance from the ESM has also to address a request for assistance to the IMF;
- H. whereas the total amount of financial assistance in the four programmes is unprecedented, as are the duration and shape of the programmes, leading to an unusual situation where the assistance has almost exclusively replaced the usual financing provided by the markets;
- I. whereas the economic situation and recent developments in some Member States have compromised the quality of employment, social protection and health and safety standards;

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<sup>1</sup> Texts adopted, P7\_TA(2010)0376.

- J. whereas the Task Force for Greece was set up to strengthen the capacity of the Greek administration to design and implement structural reforms to improve the functioning of the economy and society and create the conditions for sustained recovery and job creation, as well as to speed up the absorption of EU Structural and Cohesion Funds in Greece and to provide critical resources to finance investment;
- K. whereas, in its resolution of 20 November 2012, Parliament calls for high standards of democratic accountability at Union level to be applied to the Troika; whereas such accountability notably requires the Troika to be heard in the European Parliament before taking up its duties and to be subject to regular reporting to and democratic scrutiny by the European Parliament;
- L. whereas the programmes were in the short run primarily meant to avoid a disorderly default and stop speculation on sovereign debt; whereas the medium term aim was to ensure that the money that was lent would be reimbursed, thus avoiding a large financial loss that would rest on the shoulders of the taxpayers of the countries which are providing the assistance and guaranteeing the funds; whereas this also requires the programme to deliver sustainable growth and effective debt reduction in the medium and long term; whereas the programmes were not suited to comprehensively correcting macroeconomic imbalances which had accumulated sometimes over decades;

***Economic situation in programme countries at the beginning of the crisis***

1. Considers that the precise triggers for the crises differed in all four Member States;
2. Notes that, prior to the beginning of the EU-IMF assistance programme initiated in the spring of 2010, there was a dual fear associated with the ‘insolvency’ and ‘non-sustainability’ of the public finances of Greece as a result of the constantly declining competitiveness of the Greek economy and decades of imprudent fiscal policy, with the government deficit reaching 15.7% of GDP in 2009, and the debt-to-GDP ratio continuing on an upward trend since 2003 when it stood at 97.4%, reaching 129.7% in 2009 and 156.9% in 2012;
3. Notes that Greece entered recession in Q4 2008; notes that the country experienced six quarters of negative GDP growth rate in the seven leading to the assistance programme being activated; notes that there is a close correlation between the increase in public debt and the cyclical downturn, with public debt increasing from EUR 254.7 billion at the end of Q3 2008 to EUR 314.1 billion at the end of Q2 2010;
4. Notes that, at the beginning of the EU-IMF assistance programme, the Portuguese economy had suffered from low GDP and productivity growth for a number of years, and that this lack of growth, combined with the impact of the global financial crisis, had resulted in a large fiscal deficit and a high debt level, driving up Portugal’s refinancing costs in capital markets to unsustainable levels; notes in this context that in 2007 Portugal’s growth rate reached 2.4%, its fiscal deficit 3.1%, its debt level 62.7% and its current account deficit 10.2% of GDP, with the unemployment rate standing at 8.1%;
5. Notes that, at the beginning of the EU-IMF assistance programme, the Irish economy had just suffered a banking crisis of unprecedented dimensions, causing Irish GDP to fall by

6.3% in 2009 (1.1% in 2010) from a positive growth level of 5% of GDP in 2007, unemployment to increase from 4.7% in 2007 to 13.7% in 2010 and - its most detrimental impact - the government balance of payments to experience a deficit in 2010 of 30.6%, down from a surplus in 2007 (0.2%); further notes in the decade prior to the assistance programme that the Irish economy experienced a prolonged period of negative real interest rates;

6. Notes that, at the beginning of the EU-IMF assistance programme in 2013, speculations about the systemic instability in the Cypriot economy had been ongoing for a long time, owing inter alia to the exposure of Cypriot banks to overleveraged local property companies, the Greek debt crisis, the downgrading of Cypriot government bonds by international rating agencies, the inability to refund public expenditure from the international markets, and the initial reluctance of the government to restructure the troubled financial sector;

### ***EU-IMF financial assistance, content of the MoUs and policies implemented***

7. Notes that the initial agreement between the Greek authorities on the one side and the EU and IMF on the other was adopted on 2 May 2010 in the relevant MoUs containing , the policy conditionality for EU-IMF financial assistance; further notes that, following five reviews and the insufficient success of the first programme, a second programme had to be adopted in March 2012, which has been reviewed three times since;
8. Notes that the initial agreement between the Portuguese authorities on the one side and the EU and IMF on the other was adopted on 17 May 2011 in the relevant MoUs containing the policy conditionality for EU-IMF financial assistance; further notes that the Portuguese programme has since been reviewed regularly, leading to the combined eighth and ninth quarterly reviews of Portugal's economic adjustment programme;
9. Notes that the initial agreement between the Irish authorities and the EU and IMF was adopted on 7 December 2010 in the relevant MoUs containing the policy conditionality for EU-IMF assistance; further notes that the Irish programme has since been reviewed regularly, leading to a twelfth and final review on 9 December 2013 marking the imminent completion of the Irish programme;
10. Notes that the initial request for financial assistance was made by Cyprus on 25 June 2012, but that differences of positions as regards the conditionality, as well as the rejection of an initial draft programme by the Cypriot Parliament, delayed the final agreement on the EU-IMF assistance programme until 24 April (EU) and 15 May 2013 (IMF), respectively, and on 30 April 2013 the Cypriot House of Representatives finally endorsed the 'new' agreement;
11. Notes that the IMF is the global institution tasked with providing states experiencing balance of payment problems with conditional financial assistance; points to the fact that all Member States are members of the IMF and have therefore the right to request its assistance;
12. Deplores the unpreparedness of the EU and international institutions, including the IMF, for a sovereign debt crisis of a large magnitude inside a monetary union;

13. Acknowledges, however, that the immense challenge the Troika faced leading to the crisis was unique as a result of the poor state of regulation of financial services, large macroeconomic imbalances, and the fact that a number of instruments such as external devaluation were not available due to the constraints of monetary union; notes, moreover, that time was running out, legal obstacles had to be cleared, fear of a melt-down of the euro area was palpable, political agreements had to be reached, the world economy was in a downturn, and a number of countries which were intended to contribute financial support had seen their own public and private debt increase in alarming ways;
14. Regrets the lack of transparency in the MoU negotiations; notes the necessity to evaluate whether formal documents were clearly communicated in due time to the national parliaments and the European Parliament; further notes the possible negative impact of such practices on citizens' rights and the political situation within the countries concerned;
15. Deplores that recommendations contained in MoUs mark a departure from the thinking initiated by the Lisbon strategy and the Europe 2020 strategies); points out however that this can be partly explained, even if not fully justified, by the fact that programmes had to be implemented under considerable time pressure in a difficult political environment;
16. Regrets that the programmes for Greece, Ireland and Portugal comprise a number of detailed prescriptions for health systems reform and expenditure cuts; regrets that the programmes are not bound by the Charter of Fundamental Rights of the European Union and the Treaties, including Art. 168(7) TFEU;

#### ***The current economic and social situation***

17. Deplores that since 2008 the income distribution inequality has grown above average in the four countries and that cuts in social benefits and rising unemployment are raising poverty levels;
18. Points to the unacceptable level of youth unemployment in the four Member States under assistance programmes; points especially to the sharp increase in youth unemployment in Greece, Cyprus and Portugal;
19. Welcomes the end of the programme for Ireland and the expected end of the programme for Portugal; regrets the lack of progress in Greece despite unprecedented reforms having been undertaken;

#### ***Troika - economic dimension - theoretical basis and impact of decisions***

20. Underlines that adequate economic models are necessary in order to produce credible and efficient adjustment programmes; deplores that adequate statistics and information were not always available; points out that in Greece large-scale fraud was happening in this respect in the years preceding the setting up of the programme;
21. Notes that financial assistance achieved in the short run the avoidance of a disorderly default on sovereign debt that would have had extremely severe economic and social consequences, as well as spill-over effects for other countries of an incalculable magnitude, and possibly the forced exit of countries from the euro area; further notes that

there is no guarantee this will be avoided in the long run; also notes that the financial assistance and adjustment programme in Greece have not prevented an orderly default nor contagion of the crisis to other Member States; deplores the economic and social downturn which became evident when the fiscal and macroeconomic corrections were put into place;

22. Notes that from the onset the Troika published comprehensive documents on the diagnosis, the strategy to overcome the problems, a set of policy measures elaborated together with the national government concerned, and economic forecasts, all of which are updated on a regular basis;
23. Deplores however the sometimes over-optimistic assumptions made by the Troika, especially as far as growth is concerned, but also the insufficient recognition of political resistance to change in some Member States; deplores the fact that this also affected the Troika's analysis of the interplay between fiscal consolidation and growth; notes that as a result fiscal targets could not be fulfilled;
24. Regrets that the reduction of structural deficits in all programme countries since the start of their respective assistance programmes has not yet led to a reduction in the ratios of public debt to GDP; underlines that the ratio of public debt to GDP has instead sharply increased in all programme countries;
25. Considers that fiscal multipliers are difficult to assess with certainty; recalls in this respect that the IMF admitted to underestimating the fiscal multiplier in its growth forecasts prior to October 2012 but that the Commission stated in November 2012 that forecast errors were not due to the underestimation of fiscal multipliers; points out that this expression of public disagreement between the Commission and the IMF was not followed up;
26. Points out that while the IMF's stated objective in its assistance operations within the frame of the Troika is internal devaluation, the Commission has never clearly endorsed this objective; notes that the objective emphasised by the Commission in all four programme countries under enquiry has rather been fiscal consolidation;
27. Considers that too little attention has been given to alleviating the negative impact of adjustment strategies in the programme countries;
28. Stresses that national-level ownership is important, and that failure to implement agreed measures has consequences in terms of the expected results;

#### ***Troika - the institutional dimension and democratic legitimacy***

29. Notes that the Troika's mandate has been perceived as being unclear and lacking transparency;
30. Points out that due to its ad hoc nature there was no appropriate legal basis for setting up the Troika on the basis of Union primary law;
31. Notes the admission by the President of the Eurogroup before the European Parliament that the Eurogroup endorsed the recommendations of the Troika without considering their



specific policy implications;

32. Takes note of the dual role of the Commission in the Troika as both an agent of Member States and an EU institution; warns that conflicts of interests may therefore exist within the Commission between its role in the Troika and its responsibility as a guardian of the Treaties, especially in policies such as competition and state aid;
33. Points equally to a possible conflict of interest between the current role of the ECB in the Troika as 'technical advisor' and its position as creditor of the four Member States as well as its mandate under the Treaty;
34. Notes that the ECB's role is not sufficiently defined, as it is stated in the ESM Treaty that the Commission should work 'in liaison with the ECB', thus reducing the ECB's role to that of a provider of expertise; further notes that the ECB mandate is limited by the TFEU to monetary policy and that the involvement of the ECB in any matter related to budgetary, fiscal and structural policies is therefore on uncertain legal ground;
35. Points to the generally weak democratic accountability of the Troika in programme countries at national level; notes however that this democratic accountability varies between countries, depending on the will of national executives;
36. Notes that formal decisions are made by both the Eurogroup and the IMF, with a crucial role now given to the ESM as it is the organisation responsible for deciding on financial assistance, thus putting governments, including those of the Member States directly concerned, at the centre of any decisions taken;
37. Points to the fact that the ESM is intergovernmental by nature, is bound by the unanimity rule, and is subject to political influence exerted by finance ministers, heads of state and government as well as national parliaments;

#### ***Proposals and recommendations***

38. Reiterates its call for all decisions related to the strengthening of the EMU to be taken on the basis of the Treaty on European Union; takes the view that any departure from the Community method and increased use of intergovernmental agreements would divide and weaken the Union, including the euro area;
39. Stresses that the ESM should evolve towards Community-method management as provided for in the ESM Treaty and demands that the ESM be made accountable to the European Parliament including with respect to decisions to grant financial assistance, in order to exert democratic accountability over the ESM;
40. Urges that in the short run consideration should be given to amending the ESM Treaty in order to allow standard decisions to be taken by a qualified majority rather than by unanimity, and to allow for precautionary assistance to be given;
41. Calls for the involvement of social partners in the design and implementation of adjustment programmes, current and future;

42. Demands that the Troika take stock of the current debate on fiscal multipliers and consider the revision of MoUs on the basis of the latest empirical results;
43. Is concerned, in particular, to improve the accountability of the Commission when it acts in its capacity as a member of the Troika; requests that the Commission representative(s) in the Troika should be heard in the European Parliament before taking up their duties and should be subject to regular reporting to the European Parliament;
44. Calls for a reassessment of the decision-making process of the Eurogroup, amending MoUs with the Member States receiving EU-IMF financial assistance to include appropriate democratic accountability at both national and European levels; calls for European guidelines to be established in order to ensure appropriate democratic control on the implementation of measures at national level;
45. Is of the opinion that the option of a Treaty change allowing for the extension of the scope of the present Art. 143 TFEU to all Member States, instead of being restricted to non-euro Member States, should be explored ; similarly, takes the view that the option of a Treaty change to create a European Monetary Fund within the Community framework as an alternative to the IMF should also be explored; further considers that other issues to be evaluated include the current institutional framework of the Troika, the involvement of the ECB in the review of the programmes and the mandatory involvement of the IMF in euro area financial assistance programmes as enshrined in the ESM treaty;
46. Instructs its President to forward this resolution to the Council and the Commission, and to the European Central Bank.

## EXPLANATORY STATEMENT

The overall objective of the report is to evaluate the functioning of the Troika in the ongoing programmes in the four countries: Greece, Portugal, Ireland and Cyprus. This includes the following elements to be subject to scrutiny:

- Legal base, mandate and structure of the Troika;
- Decision-making process within the institutions and in relation to other “institutions” (e.g. the Eurogroup, national Finance Ministers etc.)
- Democratic legitimacy
- “Theoretical” basis for decisions (statistics, forecasts, economic expectations etc.)
- Consequences of Troika work (incl. looking into possible contraventions or maladministration)

The co-rapporteurs would like to emphasise that this present draft report is a basis for the subsequent political discussions, delegations to relevant Member States and hearings of various stakeholders in the beginning of 2014. It records the history and state of play, but it does not attempt to draw final conclusions or recommendations which are to be drawn following substantial work in the coming months.

As a first step, the below questionnaire was sent out on 22 November 2013 to EU level decision-makers (A) as well as national governments of the four Member States (B) concerned. The answers will be evaluated in the course of the procedure.

### **A. Questionnaire to the European Commission, ECB, IMF, Eurogroup and European Council**

#### *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?
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?
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?

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?
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.
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.
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?
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?
9. How and when did the troika report back to the Eurogroup/EFC?
10. Does the ESM play a role in the negotiation and set-up of financial assistance programmes? If so, in how far?

#### *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.
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?
13. What was the interplay between the “Task Force”, which was launched by the Commission in 2011, and the Troika?
14. How does the collaboration with the national authorities work? How far are the concerned Member States involved in the decision-making process
15. Who adopts the final decision on concrete measures to be taken by the concerned Member States?
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?
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?

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?
19. Are you satisfied with the objectives and the effective outcomes of the programme in each country?
20. Did external factors, which occurred while the programmes were carried out, influence the results?
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.
22. What in your opinion would have happened in the programme countries if the EU and the IMF hadn't provided financial assistance?
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?
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.
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?

## **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?