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NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)** held in Brussels on 12 and 13 February 2014
Chair: Ms Bowles (ALDE, UK)

One and a half-day meeting at which ECON discussed the Enquiry report on the role and operations of the Troika, two codecision files on payment services and card-based payment transactions and the discharge of the three European Supervisory Authorities. It also discussed briefly and informally the creation of a Euro sub-committee.

Agenda Item 1 on the agenda

Adoption of the agenda

The agenda was adopted.

Agenda Item 2 on the agenda

Approval of the minutes of the meetings of 9, 13, 16, 22, 23 and 27 January 2014

The minutes were approved.

Agenda Item 3 on the agenda

Chair's announcements

Ms BOWLES (ALDE, UK) updated the Committee on ongoing trilogues.

On the Undertaking for Collective Investment in Transferable Securities (UCITS V) Directive, she informed the Committee that a second trilogue had taken place on 4 February and had examined the remaining open issues, which related mostly to the remuneration and sanctions chapters. She said that the Council had expressed its desire to align the remuneration part on the Alternative Investment Fund Managers Directive (AIFMD) and the sanctions part on the Markets in Financial Instruments Directive (MiFID), but that in practice it sought changes to the agreed text in both cases, stressing that both the European Parliament (EP) and the Council had agreed to reflect on the open points with a view to concluding negotiations at a final trilogue set for 26 February. Mr GIEGOLD (Greens/EFA, DE) held that the Council sought the lowest standards available on sanctions.

On intra-trade statistics Ms BOWLES announced that a trilogue meeting had been held on 11 February and that an agreement had been reached with the Council on most topics, except for those relating to Comitology, due to the Council's willingness to introduce several implementing acts, unlike the EP which sought the introduction of delegated acts.

On competition action for damages, she told the Committee that a first trilogue had been held on 10 February on damages for infringements of competition law, disclosure of evidence, effective national decisions, limitation periods, joint and several liabilities, passing on of over-charges, and the link between the amount of damages and fines, and that an agreement was within reach, possibly at the next meeting scheduled to take place on 27 February.

Items 4 and 5 on the agenda

Payment services in the internal market and Interchange fees for card-based payment transactions

ECON/7/13490 2013/0264(COD) and ECON/7/13565 2013/0265(COD)

Rapporteurs: Mr Diogo Feio (EPP) and Mr Pablo Zalba Bidegain (EPP)

- Consideration of amendments

Mr FEIO (EPP, PT) and Mr ZALBA BIDEAIN (EPP, ES) reiterated some of the points made in earlier exchanges of views¹. While Mr FEIO expressed some optimism regarding the possibility of adhering to the procedural calendar and voting in the April plenary, Mr ZALBA BIDEAIN mentioned diverging views on several issues in his report. Mr FEIO referred to the need to improve consumer protection, to simplify the Commission proposal, to prevent fraud and to enshrine certain principles about data protection; whereas Mr ZALBA BIDEAIN noted that companies needed incentives to promote innovation in key sectors of the economy. He granted that the reduction of interchange fees could have a knock-on effect in the economy and increase credit card-related costs, stressing however that it would improve transparency for consumers. He said that most of the amendments focused on the scope, definitions, the issuance of caps, the periods of application, co-badging and honour all cards rules. He remained unconvinced about the introduction of caps on interchange fees in third party schemes and referred to the compromises among shadow rapporteurs on the clarification of debit and credit transactions and to the consensus on the rate of credit transactions (0.3%). Nevertheless, he noted that the level of caps on interchange fees was less consensual and asked the Commission to clarify the impact of interchange fees on Member States. He maintained his view on the Commission's proposal on co-badging and suggested a compromise that would guarantee a pre-selection process for users to select a default brand. He advocated more certainty for consumers on the honour all cards rules to promote the use of card-based payments. Consequently, he opposed the possibility for shopkeepers to reject cards and to allow them to surcharge the use of card-based payments so that consumers could use their cards.

In the debate that followed, shadow rapporteurs for the Payment Services Directive (PSD2) agreed that a broad consensus was within reach to widen the scope, enhance competition and to establish a fairer and more secure system.

¹ See 16105/13 pp 8-10 and 18154/13 pp 7-8.

Some noted that existing compromises did not yet cover access to individual bank accounts and legal liabilities on personal identifiers divulged to a third party service provider (Article 66) as well as surcharges and, in particular, extra charges (Article 56). It was also stated that it was unwise to mention the Network and Information Security Directive as it was not yet finalised.

Mr LUDIGSSON (S&D, SE) claimed that PSD2 had to be understood by all actors. He expressed concerns about additional costs for consumers and proposed outlawing those fees in the whole of the EU.

Mr BESSET (Greens/EFA, FR) underlined his group's remaining reservations. One concerned the limit on auxiliary transactions in Article 3 which his group believed should be set as a maximum limit that Member States could reduce, while the second concerned safeguards and the possibility for national supervisors to waive those obligations.

Mr FOX (ECR, UK) told the Committee that his group had tabled amendments to Article 3.1 on digital exemptions to ensure a level playing field and that the compromise reached should be sufficient to exclude charitable donations from the scope of the Directive. Mr SCHMIDT (ALDE, SE) proposed exempting e-wallets from the scope of the regulation.

Mr FOX advocated exempting third party schemes from the Multilateral Interchange Fees (MIFs) Regulation since they operated a different business model to four party schemes. He highlighted the interaction between the PSD2 and the MIF Regulation and the possibility for retailers to surcharge the cost for accepting certain cards which he viewed as beneficial for both consumers and retailers.

Mr SCHMIDT, on behalf of Ms IN 'T VELD (ALDE, NL), favoured the exemption of three party schemes from the regulation provided their volume did not exceed the thresholds set by the Commission. Mr LANGEN (EPP, DE) asked the rapporteur to strike a compromise on third and fourth party systems in order to achieve equal competition conditions.

Mr KLUTE (GUE/NGL, DE) claimed there was a problem of security regarding third party providers and access to bank account information of clients and called for a EU-wide solution to prevent cross-negligence.

On the interchange fees report differences remained over the scope, the level of interchange fees, caps, co-badging and the honour all cards rules.

Mr TORVALDS (ALDE, FI) supported the rapporteur's position on caps, noting that caps could curb innovation and result in a shift towards the use of cash.

Mr TORVALDS therefore proposed a weighted average solution and the deletion of caps on credit cards. Mr SCHMIDT reiterated Ms IN 'T VELD's view on caps on MIFs and her calls for a complete ban on caps on debit cards and a 0.1% cap for credit cards. Mr EICKHOUT (Greens/EFA, NL) considered it feasible to find adequate cap levels on credit cards and welcomed proposals to add a fixed level for debit cards. However, he remained unconvinced about the value of EUR 7 cents on transactions lower than EUR 10. Mr FOX viewed as acceptable the compromise on debit card interchange fees (0.2% or EUR 7 cents) but remained unconvinced by the EUR 0.3% figure for credit cards, since he believed that such a low cap would have unintended consequences for consumers and competition and result in the introduction of annual fees on credit cards in the UK. He therefore supported Compromise 176, which set an initial cap of 0.8% that would be reduced over a 5 year period to 0.3%. Ms THYSSEN (EPP, BE) did not favour high interchange fees and favoured a zero fee for debit cards. Mr GAUZÈS (EPP, FR) noted that eliminating interchange fees would not make transactions cheaper.

Mr EICKHOUT proposed the same entry into force date for cross border and domestic transactions and asked for the Commission to provide further clarification on this. Mr FOX considered the two year period for the introduction of caps too long and favoured instead a one year period. Mr SCHMIDT favoured a one year transitional period for capping MIFs on domestic markets.

Mr EICKHOUT and Mr SCHMIDT supported the Commission proposal on co-badging and the honour all cards rules (Articles 8 and 10), while Mr FOX supported the rapporteur's position on co-badging and the honour all cards rules. Mr KLUTE stated that co-badging would make life easier for consumers.

Additionally, Mr BALDINI (S&D, HR) informed the Committee that his group supported the Commission proposal and merely sought to improve it, and Mr TORVALDS said that he supported the European Central Bank's (ECB) definition of debt and credit transactions.

Mr EICKHOUT and Ms THYSSEN agreed that the retailer should have the possibility of refusing cards and therefore to prevent market abuse and preserve competition.

Mr FOX supported the rapporteur's compromise text on the separation of card schemes and processing services since there was little evidence that the card schemes' ability to offer card processing services would be a barrier to competition. Moreover, he claimed that the Commission's impact assessment did not provide evidence on the benefits of its proposal, and that the additional costs would be passed on to businesses and consumers.

The Commission representative identified 4 main areas of contention on the interchange fees discussion: the level of the fees, potential card business losses, transparency, and the transitional periods. She explained that the Commission had thoroughly assessed the impact of the fee levels and that there was an ongoing study on the costs incurred by merchants when accepting cash and card payments. She added that the final report would be available in the second half of 2014, but that some preliminary results would be presented soon. She noted that, according to the Commission impact assessment and several independent studies, there would not be any card business losses for both debit and credit cards and claimed that the provisions on all honour card rules, co-badging and separation of schemes and services were necessary to create a functioning market and could subsequently result in the elimination of caps. Finally, she said that earlier transition periods in the same area were less than one year and served as guidance.

Vote in ECON: 20 February 2014. Vote in plenary: April 2014.

Items 6, 7 and 8 on the agenda

Discharge 2012 : European Banking Authority of the European Securities and Markets

Authority and of the European Insurance + Occupational Pensions Authority

ECON/7/14215 2013/2237(DEC), ECON/7/14220 2013/2239(DEC) and ECON/7/14272 2013/2238(DEC)

Rapporteur for the opinions: Mr Antolín Sánchez Presedo (S&D)

Rapporteur for the responsible committee (CONT): Ms Petri Sarvamaa (EPP)

- Consideration of amendments

Mr SÁNCHEZ PRESEDO (S&D, ES) announced that 34 amendments had been tabled and that the setup of independent budget lines for each of the three European Supervisory Authorities (ESAs) was the only controversial issue. He questioned the adequacy of a mixed funding system and referred to the possibility of shifting towards a purely EU budgetary allocation system. He also asked if the funding should just come from the EU budget or if it should also factor the markets. He did not oppose additional funding, but suggested focusing first on efficiency. He agreed with the corrective actions proposed by the Court of Auditors and with the points made on staff recruitment procedures, public procurement, transparency and outsourcing. He expressed, however, some reservations on calls for the ESAs to reduce red tape since this was one of their supervisory tasks: i.e. to get information.

Ms GÁLL-PELCZ (EPP, HU) underlined the infancy of the three ESAs and the importance of the discharge procedure. She called for more coordination at EU level and referred to the corrective actions proposed by the Court of Auditors to highlight certain deficiencies in the operation of the ESAs. She included a new element on human resources budgetary requirements in all 3 opinions and established a correlation between efficiency and additional resources. She conceded that the present financing scheme was not the most adequate and agreed with calls to restructure it.

Vote in ECON: 20 February 2014.

Item 9 on the agenda

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

ECON/7/14607 2013/2277(INI)

Co-Rapporteurs: Mr Othmar Karas (EPP) and Mr Liem Hoang Ngoc (S&D)

- Consideration of amendments

Co-rapporteur KARAS (EPP, AT) explained that the reason for such a considerable number of amendments was that the draft report had been submitted on 17 December 2013, i.e. before the seven hearings and four visits in the programme countries had taken place, and before the replies to the questionnaires had been analysed. He said that each of the MEPs involved in the work on the report and participating in the visits in the programme countries had learned a lot in the process and that these visits and hearings had enabled MEPs to develop more balanced views on the whole issue. He set out the breakdown of amendments by political groups (roughly 300 amendments had been submitted by the EPP, 200 by the S&D, 280 by the ALDE group, some 140 by the Greens and 132 by the GUE, the rest of the amendments being submitted by the other groups). He expressed agreement with the views set out by Mr LAMBERTS (Greens/EFA, BE) that the objective should be to reach a broad EP majority on the report. He considered that this meant focusing on the facts and leaving any ideological interpretation to one side. He said that the focus of the report had therefore to be on the troika's mandate, the decision-making processes within the institutions, the question of legitimacy and the elements provided by statistics and studies on the results and consequences of the troika's operations. He called for all decisions taken by EU institutions to be based on EU law and on the community method, a prerequisite that would guarantee the transparency and legitimacy of decisions, as well as respect for fundamental and social rights.

Mr KARAS referred to the discussions at Member States' level on these issues and expressed the hope that the process under way could help reform the whole setup into a more efficient, transparent and legitimate structure for providing aid to Member States in difficulty. He said that there were four blocks of amendments, which covered respectively the analysis of the conditions underlying the troika's creation and setup, the crisis, the measures and the programmes. He argued that the statistical figures before and after the programmes did not say much and were not comparable, given the economic crisis that had taken place in the meantime, and that it was impossible to know what would have happened had the programmes not be implemented. He said it was clear that an EU instrument was needed that did not include the European Central Bank (ECB) and the International Monetary Fund (IMF), and that it should be based on the **European Stability Mechanism (ESM)**. He also said that there was a broad agreement across political groups for a community-based instrument.

Co-rapporteur HOANG NGOC (S&D, FR) expressed satisfaction at a balanced draft report (which he said was a compromise between an own-initiative report and an enquiry report) that managed to reflect the positions of both the S&D and EPP, despite initial differences. He argued in favour of a coherent report which could be supported by the largest possible majority and which included the positions of the largest possible number of political groups. He said that it had become clear that the institutions making up the troika could rarely agree amongst themselves, and that these issues had never been debated in a democratic setup. He said that there was a serious issue of democratic accountability as a result. He considered this report to have an important symbolic value. He disagreed with the assumption by co-rapporteur KARAS that the figures before and after the crisis were not comparable and considered instead that the figures were giving a clear picture of the failures related to the programmes and troika recommendations.

Mr TORVALDS, (ALDE, FI) considered that the debate was about the legality of the troika. He said that the two-pack and six-pack had come somewhat late for the countries concerned, and that there were no stress tests for programmes. He argued in favour of the creation of an European Monetary Fund (EMF) in place of the Commission, which should act as guardian of the treaties and of the ECB which should act as an observer. The IMF could act as a marginal lender if strictly necessary. Mr LAMBERTS argued in favour of the community method and considered that ignoring the issues related to the deprivation of social rights and inequalities would be a political mistake. It would also be wrong from an economic point of view, given the importance of those issues to create the conditions for a welfare economy.

Mr LAMBERTS stressed the need to look at all the facts in a comprehensive way, and not to pick and choose the facts that did not reflect uncomfortable truths. In particular, he stressed the need to point to breaches to EU law that would not have occurred under an EU community framework. He stated that there was broad agreement on the fact that this enquiry report was coming too late and was convinced that a full-fledged enquiry committee would take place in the next legislature. Mr KLUTE (GUE/NGL, DE) pointed to the high expectations generated by this process, especially in the programme countries, and to the major political responsibility of the EP in this regard. He said that one of the problems had been the imbalance of power in favour of the troika and the pressure exerted by the troika on the governments of the beneficiary Member States as a result. He said that the question was whether the situation justified the social measures adopted, and whether the problem was the building defaults of the Eurozone, or the Member States under programmes. He argued in favour of an EMF, arguing that this had been a GUE proposal from the beginning of the crisis. He criticized the role of some medias in Germany that had conveyed the message that there was no issue of democratic legitimacy related to the troika programmes.

Individual interventions from Mr FEIO (EPP, PT), Ms PODIMATA (S&D, EL), Mr TOUSSAS (GUE/NGL, EL), Mr LANGEN (EPP, DE), Ms KRATSA TSAGAROPOULOU (EPP, EL), Mr SCHMIDT (ALDE, SE) and Ms PAPADOPOULOU (EPP, CY) partly echoed previous interventions and added some nuances. Ms PODIMATA, while recognizing that the troika had been put in place under conditions offering little alternatives, criticized the "one fits all" policies and wondered whether the troika was providing appropriate assistance in Greece when it pressed for the liberalisation allowing for mass redundancies in a country in deflation with 30% unemployment.

***** Voting time *****

Item 10 on the agenda

Money market funds

ECON/7/13748 2013/0306(COD)

Rapporteur Mr Saïd El Khadraoui (S&D)

- Adoption of draft report

The vote was postponed until 20 February.

Item 11 on the agenda

Statistics for the macroeconomic imbalances procedure

ECON/7/12975 2013/0181(COD)

Rapporteur Mr Derk Jan Eppink (ECR)

- Adoption of draft report

The draft report was approved, with 36 votes in favour, 1 against and 0 abstentions.

The draft report will be partially voted in plenary in March.

Item 12 on the agenda

The European System of Financial Supervision (ESFS) Review

ECON/7/13127 2013/2166(INL)

Rapporteur Mr Sven Giegold (Greens/EFA)

- Adoption of draft report

The draft report was approved, with 33 votes in favour, 4 against and 0 abstentions.

*** *End of vote* ***

Item 13 on the agenda

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

ECON/7/14607 2013/2277(INI)

Co-Rapporteurs: Mr Othmar Karas (EPP) and Mr Liem Hoang Ngoc (S&D)

- Exchange of views with Benoît Coeuré, member of the Executive Board of the European Central Bank

In his introductory remarks, Mr COEURÉ read out the speech in the Annex. He broadly considered that the troika had functioned well, but was part of a learning process. He said that the programmes were necessary, that the troika was the best instrument available, and that it had provided valuable advice in the circumstances based on the information available to it. He called for preventive measures and for the creation of adequate buffers in future. He considered that the troika was not an instrument for the long term and that it should eventually be brought within Community structures, but that it would continue to play a role and offer advice as long as there were no alternative.

Co-rapporteur KARAS (EPP, AT) asked whether there was a proper legal basis for the troika, how the troika could be reformed and what a future alternative might look like. Co-rapporteur HOANG NGOC (S&D, FR) asked whether the ECB had respected its mandate in the treaty, why the solution of a bailout rather than a bail-in had been chosen for Ireland, despite the government's preference for senior bond holders to contribute rather than taxpayers, why the bail-in solution had been chosen for Cyprus, and what issues had been covered in the discussions on the restructuring of Greece's debt.

In reply to remarks and questions by rapporteurs and MEPs, Mr COEURÉ stated the following: he welcomed the fact that the European Stability Mechanism (ESM) treaty and the two-pack clarified the respective mandates of European Central Banks (ECB) and Commission within the troika, even though there was already a legal base for the ECB's involvement in the troika. He also considered the clarification on the way the ECB interacted with the ESM Board of Governors as positive. The IMF had its own decision-making body, which was the IMF Board, to which it reported. Member States, which are members of the IMF, are entitled to benefit from its assistance. IMF involvement was useful because it brought high level expertise which was not available to the EU at that time. It was up to Member States to decide whether an European Monetary Fund (EMF) would be a better solution for the future.

The ECB could not take decisions within the troika as a result of its independence. The International Monetary Fund (IMF), Commission and ECB provided valuable and different viewpoints - based on their respective expertise - to the Eurogroup, which was responsible for taking the decisions. The decisions on possible future arrangements were constitutional in nature and not for the ECB. However, the ECB as an EU institution had an interest in having the whole set-up brought within EU law. On Ireland's bailout, the decision to provide guarantees to the banks was a government decision taken back in 2008 before the troika became involved. The principle by which systemic banks and financial institutions should not fail was part of an international agreement. However the EU had a firewall with the ESM and the whole EU system was now more robust. The international community as a whole had also evolved from supporting bailouts to an approach favouring bail-ins. At the time, a bail-in of Irish banks entailed serious risks of contagion for the rest of the Eurozone. On Cyprus' bail-in decision, the specific factor which led to the decision taken was related to the delays by the government to take action.

On Greece, the ECB was initially opposed to a PSI because it believed that it could have triggered systemic instability in Europe and the Eurozone system.

In reply to Ms GOULARD (ALDE, FR), he said that adjustment in relation to EL and other economy's future prospects should have been given more time.

Mr COEURÉ considered that one of the major shortcomings of the current setup was the absence of a World Bank-type instrument in Europe which would provide for a social dimension to the programmes. The European Investment Bank could perhaps fulfil that purpose. The instruments existed, but they were not well connected. In reply to Mr LAMBERTS (Greens/EFA, BE) as to whether the ECB was entitled to give recommendations to Member States' governments, Mr COEURÉ said yes, that was part of the ECB's role of advising governments. In reply to Mr KLUTE (GUE/NGL, DE), Mr COEURÉ agreed that the ECB was bound to comply with EU legislation on fundamental rights. He stated that the economic adjustment was necessary as there was a need to realign spending and output and external accounts. However, this could be done in different ways and had to be socially fair. He also stated that by preventing a disorderly default, the programmes made it possible for the beneficiary Member States to adjust in ways over which they still had control. There were still high levels of unemployment, something which was inevitable in the framework of economic adjustment, but figures were improving and the programmes were definitely starting to bear fruit. After the process of fragmentation induced by the crisis, a process of gradual convergence was initiating.

Item 14 on the agenda

Any other business

During the meeting it was agreed to discuss on 20 February the letter sent by the chair of the Committee, Ms BOWLES (ALDE, UK), on 23 January to the President of the European Parliament (EP) on how the Parliament should handle the governance of the euro area in the next legislature, and possibly hold an indicative vote before the next discussion in the Conference of Presidents (CoP).

ECON members reiterated their position on the matter: while noting that there was a need for an adequate institutional mechanism for ensuring democratic accountability of the euro area, they opposed the creation of a Euro sub-committee during the current legislature and called for a decision to be taken by the next Parliament. It was accepted that this could mean the creation of a Euro sub-committee, despite the legal constraints on the distinction between Euro and non-Euro countries. It also agreed that if this happened, the split should be as limited as possible and preserve the prerogatives of the EP.

Moreover it was underlined that the composition of the sub-committee should not be based on the origin of MEPs and that there might be gentleman's agreement to prevent any formal discrimination but nevertheless allowing for the possibility of giving precedence to MEPs from within the Euro area.

The issue, which was not on the agenda of the meeting, was raised by Mr LANGEN (EPP, DE). Mr GAUZÈS (EPP, FR), Mr KARAS (EPP, AT), Mr BULLMANN (S&D, DE), Mr HOANG NGOC (S&D, FR), Mr GIEGOLD (Greens/EFA, DE), Ms GOULARD (ALDE, FR) and Mr SCHMIDT (ALDE, SE) also disapproved of the most recent moves from within the EP's administration to push for the early creation of a Euro sub-committee based on Ms BOWLES' letter on the grounds that it violated EP procedures and ignored the vote taken by the plenary in December 2013 on a Resolution on the constitutional problems of a multitier governance in the European Union. This report, which had been drawn up by the Constitutional Affairs Committee (AFCO), had recommended leaving ECON untouched. They stressed that the creation of a sub-committee could only be proposed by the Bureau to the plenary after a vote in the relevant Committee, and the CoP could not override a decision in plenary nor vote on the latest ECON proposal since it had not been discussed by its members. Some went as far as to suggest that they examine the CoP 's attitude towards the plenary.

Ms BOWLES explained that ECON had reluctantly drawn up a proposal at the request of the CoP. She distanced herself from media reports which stated that she was in favour of the creation of a Euro sub-committee, pointing out that the proposals had been agreed by the ECON coordinators and did not necessarily reflect her personal position. She stressed that it was the CoP and the EP's administration including the Secretary General that were pushing for a decision to be taken under the current legislature (a point also made by Mr GAUZÈS).

Item 15 on the agenda

Date of next meeting

The next meeting will be held in Brussels on 17 February 2014.

Speech by Mr Benoît Coeuré, member of the Executive Board of the European Central Bank (ECB)

Madam Chair,

Honourable Members,

Let me first of all thank you for your invitation to this exchange of views.

The adjustment programmes implemented in recent years in several euro area Member States were an unprecedented answer to an unprecedented crisis. This crisis has affected the lives of millions of EU citizens – hence it is only natural that you, as their directly elected representatives, assess what has happened. This crisis has revealed major shortcomings, mainly in domestic economic policies, but also in the architecture of EMU – thus the European Parliament as an institution with a truly European perspective is an appropriate forum to discuss what can be learnt from this experience.

It is against this background that I am grateful for the opportunity today to explain the role of the ECB in the troika, to discuss our assessment of the adjustment process in the programme countries and to draw with you some key lessons from the last four years.

The ECB's role in the troika

Let me start by recalling the circumstances under which the troika was set up. When a sovereign debt crisis erupted in spring 2010 in the aftermath of an unprecedented global financial crisis, the euro area was caught unprepared.

The Maastricht architecture had failed to prevent the build-up of excessive imbalances and unsustainable fiscal positions by a number of countries. Europe was then ill-equipped to handle a crisis of such magnitude stemming from these developments. There was no framework for dealing with Member States losing market access. There was no governance foreseen for such cases. There was no instrument to provide funding.

Under these difficult circumstances, the Member States decided to grant financial assistance subject to appropriate conditionality as part of an adjustment programme. The Eurogroup sought to avail itself of the best available expertise to support it in designing and reviewing these programmes. The IMF and the European Commission in liaison with the ECB with their complementary experience in crisis management, country surveillance and financial stability were asked to take on this difficult task – this is what we know today as the troika.

The particular expertise and euro area focus of the ECB, in other words, the views we have on the systemic consequences of the decisions under discussion, were compelling reasons for requesting our participation. Moreover, we made it clear that the ECB would retain its full independence, as mandated by the Treaty.

By accepting the Eurogroup's request, we accepted a clearly defined advisory role: the troika institutions provide the necessary input for the Eurogroup to take its decisions. In liaison with the other institutions, we analyse the situation on the ground, assess policy options in close cooperation with the respective Member State and later support the review of their implementation.

Today, this set-up is codified in the ESM Treaty and in the two-pack, which was jointly adopted by this house and by the Council. In its Pringle judgement, the European Court of Justice established the EU ground rules for the Commission's and the ECB's participation in the troika, holding that the tasks assigned to the ECB under the ESM Treaty are fully in line with the EU Treaties. Hence, the ECB's participation in the troika is based on solid legal grounds.

The design of the adjustment programmes

Turning to the design of the adjustment programmes, let me emphasise that, despite the substantial differences across the programme countries, the troika had to overcome four challenges common to them all:

First, unsound national policies, which the Maastricht framework failed to prevent, led to an extremely difficult economic situation at the start of each programme. In fact, the ECB had warned publicly – and even in this house – about the unsound fiscal positions and loss of competitiveness of many of these economies.

Second, there was immense time pressure, while the information available was often incomplete and sometimes even misleading.

Third, economic considerations, notably debt sustainability concerns, and political circumstances put constraints on the amount of funding provided by European and international partners.

And fourth, there was little experience with large adjustments in a short timespan within a monetary union context. A high risk of contagion across euro area Member States made the task more challenging and constrained the policy options.

The troika operated under these constraints. While our advice was tailor-made to the situation in each of the Member States, it followed one overarching objective: to create the conditions for sustainable long-term growth, high levels of employment and hence help the Member State to regain market access. This meant that three main policy areas needed to be addressed: first, consolidating public finances; second, repairing and restructuring the financial sectors to put them on a healthier footing; third, regaining competitiveness by pursuing structural reforms.

When giving advice as part of the troika, we always attached importance to ensuring social fairness. This meant, in particular, an equitable sharing of the adjustment burden across society and overcoming powerful vested interests.

I am acutely aware of the social hardship in the programme countries. Many citizens have suffered and are still suffering from policy mistakes in the run-up to the crisis and the subsequently unavoidable adjustment process. These are real people losing their jobs. Real people getting their wages or pensions cut. This concerns all of us.

But we should not jump to the wrong conclusions and blame the fire brigade for the fire damage. Let us always keep in mind what would have been the alternative.

A disorderly default would have resulted in a meltdown of the financial sector and in a collapse of the real economy. Social hardship would have hit the citizens of the programme countries much harder. And let us also not forget that in one case there was an extensive debate on the potential exit from the euro area.

Instead, what have we experienced these last four years? Tremendous efforts have been made to repair financial sectors, improve the functioning of the economy and consolidate public finances. That Ireland has just exited from its programme and regained market access is a demonstration of this hard-won achievements. In all the programme countries we have seen major progress, especially as regards fiscal adjustment and the stabilisation of banking systems. Cost and price competitiveness are being regained step by step; structural reforms are showing first results. Market access has improved.

Nevertheless, unemployment remains unacceptably high and the recovery is fragile. Therefore, governments should not undo the progress made. Instead, they should keep going down this difficult path. Incidentally, this applies not only to the programme countries, but to all euro area Member States.

Lessons to be learned

I would like to draw three conclusions from what I just explained. First, the programmes were the necessary answer to some Member States finding themselves on the brink of default. Second, the troika was the best available instrument in the given circumstances. And third, with hindsight and taking into account the difficult situation as well as the imperfect information available at the time, the troika has provided sound advice.

Where does this leave us? I believe the experience of the last four years offers some important lessons.

The best insurance against having to endure swift and painful adjustment in the face of imminent danger is to conduct sound fiscal and structural policies. This means building up buffers and efficient structures in good times so that a Member State never ends up in such a situation again. This is, first and foremost, the responsibility of the Member States themselves. It also means that the Excessive Deficit and the Excessive Imbalances Procedures must be enforced thoroughly.

More generally, we saw that the lack of an adequate governance framework at the European level considerably narrowed the policy options available once the crisis hit. Only when a new institutional set-up was built up, step-by-step, did more and more options become available again.

This leads us to an important lesson: to collectively retain sovereignty, Member States need to share sovereignty.

We have come a long way since 2010 in this regard, in particular with the step-by-step establishment of a banking union, but we are not there yet. I am sure that your institution will continue to play an essential role in this process, as it repeatedly has in recent years.

The troika in its current form will not be there forever. I am convinced that in the long term, Europe's crisis management framework should be brought under the single umbrella of Community law. But there is no short term alternative and as long as it is sought, we will continue to contribute our candid advice, learning from experience.

I thank you for your attention and I am now looking forward to your questions.
