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'I/A' ITEM NOTE

From:	Financial Counsellors Working Party
To:	Permanent Representatives Committee (Part 2)/Council
Subject:	European Court of Auditors' Special Report No 18/2015: "Financial assistance provided to countries in difficulties" - Draft Council conclusions

1. On 24 February 2016, the Permanent Representatives Committee assigned the examination of the European Court of Auditors' Special Report No 18/2015: "Financial assistance provided to countries in difficulties" to the Working Party of Financial Counsellors.
2. The Working Party of Financial Counsellors examined the report at its meetings on 2 March and 11 March. The Working Party examined the draft conclusions at its meeting on 19 April and agreed on the attached text by silence procedure on 22 April.
3. The Permanent Representatives Committee is therefore invited to approve these draft Council conclusions and to submit them to Council for adoption.

DRAFT COUNCIL CONCLUSIONS**European Court of Auditors' Special Report No 18/2015: "Financial assistance provided to countries in difficulties"****THE COUNCIL OF THE EUROPEAN UNION**

1. WELCOMES the European Court of Auditors' Special Report No 18/2015: "Financial assistance provided to countries in difficulties”;
2. NOTES the Court's findings and recommendations regarding the Commission's management of financial assistance provided under the balance-of-payments facility (BoP) or the European Financial Stabilisation Mechanism (EFSM) and UNDERLINES that the audit looked at six programmes in five Member States where support was provided through the BoP and EFSM facilities and focussed primarily on the Commission's management of the programmes;
3. WELCOMES the Commission's detailed reply to the Special Report;
4. RECOGNISES that the Commission's actions in managing the different programmes do not take place in isolation, but rather in a complex institutional setting, taking into account significant differences among beneficiary Member States in terms of socio-economic, structural and political characteristics. First, programmes are designed with the close cooperation of the beneficiary Member State in order to ensure ownership of the programme which is necessary for effective programme implementation. Second, the Commission acts in cooperation with its programme partners, the European Central Bank (ECB) and the International Monetary Fund (IMF) and is framed by the political decision-making of providing financial assistance;
5. CONSIDERS that the Commission has managed to swiftly take on its role in managing multiple economic adjustment programmes in reaction to the financial and sovereign debt crisis, in a context where negotiations and decisions had to be taken quickly, given very tight timelines and market pressure, and APPRECIATES the Commission's significant contribution in this difficult task;

6. HIGHLIGHTS that the programmes were successful in prompting reforms and countries mostly continued with the reforms that were sparked by the programme conditions, but RECOGNISES that the full benefits of structural reforms take time to materialise in order to support sustainable growth;
7. NOTES that the economic crisis' impact and evolution were unprecedented, but RECOGNISES that the economic surveillance framework that was in place at the time was not fully adequate, having too little focus on macroeconomic and financial imbalances;
8. HIGHLIGHTS that the economic governance framework to mitigate and cope with economic risks has been greatly reinforced since, amongst others with the introduction of the six-pack and the two-pack, in particular with the establishment of the Macroeconomic Imbalances Procedure, as well as with the introduction of the European System of Financial Supervision and the banking union;
9. Nevertheless ACKNOWLEDGES that, in line with the findings of the Special Report, certain aspects of the Commission's management of programmes provided to Member States in difficulties were not optimal and WELCOMES the findings that most of the shortcomings were addressed as the Commission had more time to get into its new role;
10. STRESSES that equivalent treatment between beneficiary Member States is essential, but ACKNOWLEDGES that each macroeconomic adjustment programme must be tailor-made to, and designed in close cooperation with, the beneficiary Member State, in order to ensure national ownership of the reforms to be implemented and to reflect countries' differing needs and circumstances. Transparency and clear communication should be strengthened, in order to ensure that tailor-made approaches are justified;
- 11 HIGHLIGHTS the importance of relevant conditions and CONSIDERS it essential that programme conditions are focused, and that the need for the integrated sets of reforms included in the programme are justified and that the monitoring of compliance with specific conditions should take place in a systematic manner;

12. **UNDERLINES** that strong record-keeping is a necessary part of ensuring the transparency of programme decisions, though it should not imply a disproportionate burden or undue delay.

Documents related to programme design, economic conditionality and implementation monitoring should be duly and systematically retained. Similarly key programme decisions should be carefully documented and stored;

13. **HIGHLIGHTS** that close attention should be paid to the quality management and review of the forecasting process, amongst others by cross-checking the assumptions made by the programme country teams as well as recording and improving transparency of the key assumptions underlying programme design and implementation;

14. **INVITES** the Commission to improve its understanding of how countries adjusted during the programme so that greater attention can be paid to the lessons learnt from the programmes;

15. **NOTES** that the collaboration between the Commission, the ECB, and where appropriate the IMF is a cornerstone for the management of economic adjustment programmes in the Union, but the format of this cooperation for future programmes should be established jointly by the participating institutions;

16. **WELCOMES** that the Commission fully accepts a large majority of the Court of Auditors' recommendations and **INVITES** the Commission to report back to the Council by mid-2017 how it has taken forward these recommendations.
