



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 21 January 2014

5541/14

**PE 22
ECOFIN 50
FIN 49
FISC 6
JUR 30
UEM 13**

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 Strasbourg on 13, 14, 15 and 16 January 2014

In the context of the European Parliament's inquiry into the operations of the troika [co-rapporteurs are M. Othmar Karas (EPP, AT) and Liem Hoang Ngoc (S&D, FR)], the ECON committee conducted three hearings during the plenary week: one with Commissioner Olli Rehn on Monday 13 January, one with former ECB President Mr Jean-Claude Trichet on Tuesday 14 January and one in the presence of the European Stability Mechanism's managing director M. Klaus Regling on Wednesday 15 January. At the ECON meeting on 16 January, the co-rapporteurs presented their draft report. They referred to the visits of a Parliament delegation to Cyprus and Portugal. Similar visits will take place to Dublin on 16-17 January and Athens on 29-30 January to meet with national authorities and other stakeholders on the ground. A final report with findings is to be published in April. In the framework of the drafting of the report, the ECON chair and the co-rapporteurs have sent a questionnaire to Institutions involved in the Troika as well as to Member States (Finance Ministers, Governors of the Central Bank and Heads of State).

Commissioner Rehn's hearing on 13 January 2014

At the meeting on 13 January (chair: Ms Bowles, ALDE, UK), M. Langen (EPP, DE) expressed dissatisfaction at the organization of no less than four extraordinary ECON meetings on the issue in the same week. Ms Bowles replied that these meetings had been approved by ECON coordinators, and that it was important following the EP delegation's visit in Cyprus.

Commissioner Rehn indicated in his introductory statement that the programmes had prevented a disorderly default of the countries concerned; that the Commission would have favoured a community solution, but that Member States had opted for an inter-governmental one; that the troika had been set up under extreme political and economic circumstances; that it combined the expertise of three institutions; that the troika's role had been formalized in the ESM treaty and that the two-pack had introduced rules on transparency and accountability, and that the troika was functioning reasonably well. He considered that the main lesson of the programmes led by the troika was that ownership of the programmes by beneficiary countries was key for success. He expected the future of the troika to be discussed in the context of the deepening of EMU. He referred to the publication by the Commission of written answers to the Parliament's questionnaire as essential for democratic dialogue and accountability.

During the question and answer session which followed, co-rapporteur Karas(EPP, AT) wondered whether the need for a better balance between the twofold objectives of reform and growth had been looked at, asked about the Commission's role in pushing the concerned countries into a programme and about the influence of the Member States which are not under a programme for reaching unanimity in the Council. Co-rapporteur Hoang Ngoc (S&D, FR) and Eppink (ECR, BE) were very critical of what they described as blatantly erroneous estimates of fiscal multipliers for years and their impact on the success of the adjustment programmes. They wondered how the troika could have been repeatedly wrong for so many years on those figures. M. Hoang Ngoc (S&D, FR) referred to the bail-in decided in the case of Cyprus as being in violation of the EU acquis and asked why the Commission did not defend that acquis in those circumstances. M. Lamberts (Greens, BE) further wondered on what basis the decision had been taken not to restructure the Greek debt to make it sustainable, something which entailed a high political and economic price, and about the

criteria for deciding that only borrowers should pay for their errors, and not irresponsible lenders. M. Chountis (GUE, EL) recalled that the delays of the EU to take action had had disastrous economic effects, and stressed that Greek debt was now much higher as a result (from approximately 120% at the beginning of the crisis up to roughly 180% today). Both he and Ms Ferreira (S&D, PT) were very critical of pressures exerted by the troika in Greece and Portugal to impose privatizations of strategic economic assets. MEPs asked in general about the breakdown of responsibilities and decisions between the institutions making up the troika (Commission, IMF, ECB) and wanted insights from the Commission about how the troika could be improved in future.

Commissioner Rehn said that conditionality was not dictated, but agreed following a negotiation. He stressed the limits of economics as an isolated science and as a means to make credible forecasts on future economic and political developments at large. He stated that the accuracy of forecasts lowered in times of crisis because of discontinuity. He considered that political factors and instability and the lack of political unity was another disrupting factor, which furthermore weakened the path of reform. With regard to Cyprus, he said that the Commission was favourable to softer adjustment solutions than those decided by the Eurogroup.

He considered that the 2.5 billion loan granted by Russia to Cyprus at the end of 2011 when the first signs of crisis appeared had kept the Cypriot economy going for some time, but had unfortunately led the CY government to delay considerably the necessary reforms. He stressed that an early restructuring of the Greek debt entailed risks of contagion on other EU Member States. He assured MEPs that the Commission and the troika were respecting the constitutions of the Member States; that there was a clear chain of command in the troika and a system for dispute settlement. Asked about a possible reform of the institutional setup of the troika, he referred to the statement by the German foreign Minister M. Steinmeier arguing in favour of keeping the troika's set-up unchanged. Despite insistence by MEPs on what could have better worked or on possible improvements of the troika in future (Karas, EPP, AT, Feio, EPP, PE, Podimata, S&D, EL, Kratsa, EPP, EL), the Commissioner only said that the task force for Greece should have been established earlier. He repeated that the rules on accountability were provided by the two-pack and that the ultimate responsibility for the MOU lay with the programme countries themselves.

Hearing of former ECB president M. Trichet on 14 January

The second hearing of the week dealing with the Troika's role and operations was held on 14 January. The meeting was chaired by the two co-rapporteurs on the subject, who recalled that the objective of the inquiry was for the Parliament to exert democratic control over an instrument (the troika) that is not enshrined in the treaty. They argued that the ECB, although an independent institution, had been acting within the framework of a structure which did not have sufficient democratic legitimacy.

In his introductory statement, M. Trichet considered that the crisis had been caused primarily by the fact that Member States, especially the larger ones, had not respected the Growth and Stability Pact for years, something he had called for as early as 2003 when holding his first hearing before taking office. He later said that the fact that some of the large Member States had even been hostile to it had given a very bad example to smaller Member States. He argued that given the absence of a genuine federal budget, complying with the S&G Pact was all the more essential to maintain the economic cohesion of the eurozone. He stressed that the crisis had been the worst since WWII and warned against the temptation of underestimating its seriousness and thus failing to analyse events based on real facts. He said that the EU had managed to avoid a serious depression, but had not managed to avoid recession. He considered that the sovereign risk crisis was the result of weak governance by Member States, in particular with regard to competitiveness indicators. He said he was convinced that the European Parliament was to play an even bigger role in future than was the case today and that he was in favour of increasing the Parliament's role.

In the discussion which followed, MEPs strove to elicit explanations for the actions and positions taken by the ECB. Members asked specifically why Mr Trichet had initially opposed restructuring Greek debt, why he had not bought government bonds of embattled countries more vigorously, and why the ECB had written secretly to certain countries requiring reforms when this was not the role of a monetary authority. Other MEPs demanded Mr Trichet's opinion as to whether the construction of the reform programmes, especially for Greece, had been faulty, and what would have happened had EU countries not bailed out Greece in the first place. MEPs also asked Mr Trichet's views on what model should replace the Troika.

Mr Trichet recalled that the decisions to be implemented by the troika were ultimately decided by the Eurogroup. He noted that at the time, some governments were interpreting the treaty as excluding the possibility of a bailout and recalled the reasons for involving the IMF - something he was initially not favourable to - into what was to become the troika. He stressed that the ECB role was very important since the ECB could identify problems within the eurozone as a whole that were not visible to the Commission or the Member States' governments. He concluded that all in all, the troika set-up was the best concept to put in place in the circumstances. He said that Greece was the first country to be hit, something which reflected its objective state of vulnerability on the basis of budgetary and production figures. He stated however that the whole EU economic system was facing a systemic problem, something which was clearly visible for the ECB but not necessarily from the view angle of the Member States. In reply to further questions by MEPs, he argued that the announcement by ECB President M. Draghi on OMTs had been fully credible and had worked because the ECB had already intervened twice decisively to buy public debt in the past. With regard to Ireland's decision to bail out its banks, he stated that this decision reflected a broader policy both by Ireland and other Member States, including the UK, France and Germany. He stated that what had made the situation difficult for Ireland was the size of its banking system to be bailed out. He noted that the situation had been particularly dramatic when Spain and Italy were under attack. He acknowledged that the Troika and the reform programmes were not perfect, but stressed that the extremely difficult circumstances at the time had demanded rapid action, such as the letter sent to Spain.

Various MEPs criticised Mr Trichet for having delayed a "haircut" of Greek debt for too long, thus exacerbating the problem. He replied that he had first needed reassurances from the Member States that a restructuring of Greek debt would not have become a model to be replicated, because that would have rewarded speculators, rather than real investors and would have entailed risks.

Asked whether a stronger stability and growth pact would have prevented the crisis, Mr Trichet acknowledged that it had been the watering down of EU fiscal rules that had allowed countries like Portugal and Greece to go over the edge. He stated that the correction of imbalances was a process which could not be avoided by the Member States concerned, the sole issue left open being whether

to do it in an orderly or disorderly manner. Strong governance would be vital to future success, Mr Trichet said, adding that the advent of a future system should mark the disappearance of the Troika one and a move to prevention rather than cure. Mr Trichet also said that in a future governance system, the European Parliament and national parliaments should act as arbiters between the European Commission and national governments. Where the Commission and a government disagreed on what reforms to undertake, he said it should be up to the European Parliament and that country's national parliament to decide.

Hearing in the presence of M. Regling, Managing Director of the European Stability

Mechanism, 15 January 2014

The meeting was chaired by M. Zalba Bidegain (EPP, ES).

In his introductory statement, M. Regling made clear that the EFSF and ESM were not part of the troika, but that the troika operated under the legal framework of the EFSF and ESM. He stressed that the troika had been put in place as a response to a crisis and in a context whereby no instruments were available at EU level to tackle such problems. He stressed that this option had been made available to countries that had lost access to financial markets and that it allowed them to remain within the euro area, something which, according to polls, reflected the citizens' will. He stressed that the belief that a less painful option would be possible was an illusion, and that any alternative (i.e. a disorderly default) would have even more rather than less painful and would have caused the collapse of the economy and the exit from the monetary union. He said that without the EU loans, the adjustment would have to have happened overnight.

The co-rapporteur M; Karas asked whether a European Monetary Fund should be created. Co-rapporteur M. Hoang Ngoc said that what had failed was the fact that both the breaks of internal devaluation promoted by the IMF and of budgetary consolidation promoted by the Commission had been used simultaneously, thus creating a situation of deflation and a rise of the debt- to-GDP ratio. He asked whether the possibility of delivering to the ESM a banking licence to allow it to refinance itself via the ECB had been considered.

MEPs stressed that the need to minimise negative social consequences and ensure national ownership of remedial measures should have been higher on the decision makers' agenda. They disputed Mr Regling's statement that the Troika had only provided advice, arguing that since programme country governments had no room to deviate from this advice, the Troika had in effect become an enforcer of reforms, without proper democratic safeguards. They also asked how a possible future system could be made more accountable, transparent, and socially considerate.

Mr Regling said that Member states had opted for the inter-governmental approach to solving the crisis and argued that there was no alternative to the Troika at the time from an economic or institutional viewpoint, stressing that there could have been no "painless" escape from the crisis. Mr Regling also stressed that Troika actions had produced positive effects, citing Ireland, which had left the programme and successfully sold government bonds, and Portugal, which had restored its competitiveness, boosted its exports and regained access to the financial markets.

Left-of-centre MEPs pointed to the huge social costs, excessive burdens borne by the poor, weakened social services, and the way in which wealthy vested interests had been able to avoid much of the hardship. Economic conditionality had been imposed on the Member States concerned, they said. MEPs pointed out that remedial strategies would work best where they had the benefit of popular acceptance and a sense of national ownership.

Mr Regling admitted that the balance between the measures could have been different, but reiterated that the Troika had only offered advice – it had been up to states in the programme to choose the appropriate solutions. For the future, Mr Regling proposed that more use should be made of European Commission expertise. He also mentioned giving the European Stability Mechanism (ESM) more power through a treaty change.

Special meeting of the ECON Committee on 16 January 2014

The two co-rapporteurs, Othmar Karas (EPP, AT) and Liem Hoang Ngoc (S&D, FR) presented their "inquiry initiative report". M. Hoang Ngoc said that the policy mix of economic measures imposed on countries had not been decided within the context of a democratic debate and had led as a result to an increased level of indebtedness for all programme countries. He considered that in the short term, the solutions found had saved the EU and the countries concerned from the risk of disorderly defaults. He considered however that for the long run, more sustainable and efficient solutions should be put in place to counter future crises.

Many MEPs agreed that the issue they were dealing with was sensitive, was creating expectations in the programme countries and that any use of the findings for political purposes should be avoided (Ferreira (S&D, PT). Many said that there was an issue of the legitimacy of the troika's decisions. M Lamberts (Greens, BE) argued for a fairer burden sharing of the crisis' costs between lenders and borrowers, who had both their share of responsibility in the disaster. M. Chountis against the risk for the Parliament of being perceived as justifying the troika action. Ms Matias (GUE/NGL, PT) argued that the Parliament should have the courage to acknowledge that the troika had been a complete failure.

Overall, MEPs from the programme countries exerted strong criticism of the troika's methods and results, whereas right-wing MEPs from other countries (Gauzès (EPP, FR), Hökmark (EPP, SV) referred to the very difficult context at the time and to the absence of alternatives. The Chair of EMPL Ms Beres argued for a coordinated approach for the two reports to be presented (one by ECON and one by EMPL) on this issue. She advocated the participation of the ILO in a future troika-like setup to take account of potential social costs of the policy mix to be chosen, recalled the request made for a committee of inquiry on Greece and regretted that the holistic approach wanted by EMPL had not been adopted by the Eurogroup.