EUROPEAN
COMMISSION

Brussels, 6.2.2014
COM(2014) 61 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the application of Regulation (EU) No 472/2013

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1. INTRODUCTION

The economic and financial crisis revealed a number of weaknesses in the EU's economic governance and surveillance. Most surveillance shortcomings were effectively addressed with the creation of the European Semester for economic policy coordination and the six pieces of legislation commonly known as the “Six Pack”. Given the higher potential that economic and budgetary policies in a single currency area can result in substantive spill-over effects, however, there was nonetheless a need for stronger mechanisms to be put in place. For these purposes, Regulations (EU) No 472/2013 and (EU) No 473/2013[1] were adopted by the legislator. Regulation (EU) No 472/2013 sets out specific processes related to enhanced, programme and post-programme surveillance of euro-area Member States, formalising previously *ad hoc* approaches and making the link between financial assistance and the Treaty framework related to the coordination of the economic policies of the Member States. These so-called "Two Pack" Regulations entered into force on 30 May 2013.

Regulation (EU) No 472/2013 (hereafter "the Regulation") sets out rules for enhanced surveillance, macroeconomic adjustment programmes and post-programme surveillance under which the Commission and Council can exercise a degree of surveillance appropriate to the case at hand, and which complements the other existing multilateral surveillance processes. In so doing, they can conclude that a Member State must take further measures to address the specific risks emanating from that Member State for financial stability in the euro area; the said measures would aim to rapidly re-establish a sound economic and financial situation and, if relevant, restore the Member State's capacity to finance itself fully on the financial markets.

The Regulation was established in order to align current practice used in implementing financial assistance programmes in euro-area Member States with the Treaty institutional framework and to, thus, simultaneously ensure an improved application of said principles across Member States. The degree of intrusiveness of monitoring and surveillance will depend on the seriousness of the financial situation of the Member State concerned. The Regulation also allows for the simplification of overlapping reporting obligations for specific cases in which a Member State is under financial assistance.

According to Article 19 of the Regulation, by January 2014, and every five years thereafter, the Commission shall submit to the European Parliament and to the Council a report on the application of this Regulation, accompanied, where appropriate, by a proposal to amend this Regulation. The report shall evaluate, inter alia: (a) the effectiveness of this Regulation; (b) progress in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States in accordance with the TFEU; (c) the contribution of this Regulation to the achievement of the Union’s strategy for growth and jobs.

[1] OJ L 140, 27.5.2013.

It should be noted that the review of the Regulation aims to provide an overview on its implementation since its entry into force. The content provided, as part of this review, on economic progress made by Member States under programme is not intended to either duplicate or subsume the regular mission reviews conducted under these programmes.

The Regulation has only been in force for a very short time, implying severe limitations as far as what can be evaluated, and to what depth, at this juncture. The review of the "Six" and "Two Pack" legislation at year-end 2014 will, in contrast, allow to conduct a more comprehensive and in-depth assessment of the Regulation's effectiveness.

2. APPLICATION OF REGULATION (EU) No 472/2013

2.1. Implementation of the Regulation

Article 2(5) and Article 7(12) of the Regulation mandate that the Commission publish, for information purposes, two lists of financial assistance instruments: (i) those instruments which are of a precautionary nature and, separately, (ii) those instruments for which rules under the European Stability Mechanism (ESM) do not call for a macroeconomic adjustment programme. In October 2013 the Commission adopted the said Communication[2].

Since the entry into force of the Regulation, no euro area Member State has yet been subject to enhanced surveillance in accordance with Article 2 and no euro-area Member State has yet concluded a new macroeconomic adjustment programme.

However, pursuant to Article 16 of the Regulation, Member States in receipt of financial assistance as of the date of entry into force are subject to the rules of the Regulation. Consequently, it applies to those euro-area Member States which were under an instrument of financial assistance on 30 May 2013.

At the time of the entry into force of the Regulation, Greece, Ireland, Portugal, Spain, Cyprus were beneficiaries of financial assistance from one or several other Member States, the EFSM, the ESM, the EFSF or another relevant international financial institution such as the IMF. New decisions adjusting the existing macro-economic adjustment programmes were adopted under this Regulation.

Four Member States are in receipt of financial assistance linked to a macroeconomic adjustment programme, thus triggering the application of Article 7 of the Regulation:

Greece

Greece has concluded two economic adjustment programmes. The first was detailed in by Council Decision 2010/320/EU on 26 May 2010 and amended several times subsequently. The second economic adjustment programme was implemented by Council Decision 2011/734/EU of 12 July 2011 which was lastly amended by Council Decision 2013/6/EU[3].

Ireland

The Irish economic adjustment programme was implemented by Council Decision 2011/77/EU in February 2011. The updates to the macro-economic adjustment programme

[2] OJ C 300, 16.10.2013.
[3] OJ L 48, 21.2.2013.

have been adopted under Article 7(5) of the Regulation as of 9 July 2013 via Council Implementing Decision 2013/373/EU[4].

Portugal

The Portuguese economic adjustment programme was implemented by Council Decision 2011/344/EU on 20 May 2011. The updates to the macro-economic adjustment programme have been adopted under Article 7(5) of the Regulation as of 9 July 2013 via Council Implementing Decision 2013/375/EU[5].

Cyprus

The Cypriot economic adjustment programme was implemented by Council Decision 2013/236/EU of 23 April 2013, shortly before the entry into force of the Regulation. For the sake of clarity and legal certainty, the macro-economic adjustment programme has since been endorsed under Article 7(2) of the Regulation via Council Decision 2013/463/EU of 13 September 2013[6].

Spain has been subject to financial assistance for the recapitalisation of financial institutions. This means that the Regulation's macroeconomic adjustment programme provisions do not apply to Spain. Spain will, however, be subject to post-programme surveillance in accordance with Article 14 of the Regulation as soon as the current financial assistance programme ends.

2.2. Effectiveness of the Regulation

The main objective of the Regulation is to strengthen monitoring and surveillance for Member States threatened with, or experiencing, serious difficulties regarding their financial stability. It aims to establish transparent, efficient, streamlined, and predictable surveillance processes for the Member States under enhanced surveillance, macroeconomic adjustment programme and post-programme surveillance.

The Regulation has been in force since 30 May 2013. Such a short timeframe makes it particularly difficult to assess the effectiveness of the Regulation, as it provides limited evidence on which to base this evaluation.

In particular, many provisions of the Regulation are relevant for the period in which programmes are developed and negotiated. In the existing programmes, these periods took place before the Regulation entered into force. The effectiveness of the Regulation in accordance with Article 19 cannot therefore be evaluated as regards these earlier phases.

In addition, it is not possible to assess the effectiveness of the Regulation with regard to enhanced surveillance, as no euro area Member State has yet been placed under enhanced surveillance. For these same reasons, the effectiveness of the Regulation cannot yet be assessed as regards the application of post-programme surveillance.

During this time, effectiveness can be evaluated only as regards existing macroeconomic adjustment programmes. These are intended to rapidly re-establish a sound and sustainable economic and financial situation and restore the Member State's capacity to finance itself fully on the financial markets. Thus far, the existing macroeconomic adjustment programmes have achieved the objectives of the Regulation.

[4] OJ L 191, 12.7.2013.
[5] OJ L 192, 13.7.2013.
[6] OJ L 250, 20.9.2013.

However, ongoing implementation of the Greek, Portuguese and Cypriot programmes will provide important parameters and evidence on how to assess effectiveness for the next review exercise. Similarly, Ireland and Spain's forthcoming exit from their financial assistance programmes will provide new evidence to conduct a more thorough assessment of the effectiveness of post programme surveillance at a later stage.

The close monitoring of all euro-area Members States will serve to immediately address any potential fragility that may emerge and to avoid contagion in the EMU or the Union more broadly.

2.3. Progress in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States in accordance with the TFEU

Regulation (EU) No 473/2013 and the "Six Pack" legislation will be assessed in 2014 by a review exercise. It is expected that this review will take a more comprehensive look at the progress made in respect of coordination and convergence.

Regulation (EU) No 472/2013 establishes a framework for the strengthening of economic and budgetary surveillance for Member States in the euro area experiencing or threatened with serious difficulties. Among other aspects, it provides for a closer coordination for those Member States under macroeconomic adjustment programmes and establishes the general framework for post-programme surveillance.

In addition, the Regulation provides for a reinforced economic surveillance with a view to ensuring consistency in economic policies – in particular between the Union multilateral surveillance framework as established by the TFEU and the possible policy conditions attached to financial assistance – and to avoiding duplication of reporting obligations. To that effect the Regulation contains consistency clauses with the Stability and Growth Pact, with Regulation (EU) No 1176/2011[7] and with some provisions of Regulation (EU) No 473/2013[8]. Euro-area Member States, subject to the Regulation, have been exempted from some obligations to avoid precisely this duplication of reporting obligations.

The Regulation does not contain transitory provisions for the Member States that exit a programme and respective financial assistance (e.g. Ireland) during the annual cycles of macroeconomic surveillance. With the aim of smoothing the full re-integration of those Member States in the mechanisms of economic coordination, the Commission will promptly apply the standard surveillance tools to the Member States that have successfully implemented economic adjustment programmes.

[7] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
[8] However, Articles 1 to 5 and 13 to 18 of Regulation (EU) No 473/2013 shall not apply.

3. ASSESSMENT OF PROGRESS WITH REGARD TO ECONOMIC CONDITIONS

Given that Regulation (EU) No 472/2013 has only recently entered into force, it is too early to assess the impact of its implementation on economic conditions.

All Member States to which the content of the Regulation applies have carried out structural reforms in order to address the sources of vulnerability and financial instability. Ireland´s and Cyprus's problems were mainly rooted in the banking sector. Accordingly, Ireland reorganised the sector, recapitalised viable banks and wound down nonviable banks, and is doing rigorous stress testing to properly value asset portfolios. Restructuring and resolution of banks has also been done in Cyprus, as well as quick and upfront deleveraging. Furthermore, both countries have and continue to conduct labour and product market reforms. The former includes the implementation of the Action Plan for Jobs and a reform of the education and training programmes in Ireland, and a suspension of the wage indexation in the private sector until 2014 in Cyprus. The latter refers among others to privatisation programmes in various energy and transport sectors and an enforcement of competition law (Ireland). Besides, both countries undertook and are still undertaking reforms in order to consolidate public finances and reduce financial pressure.

Greece has implemented impressive fiscal consolidation and carried out deep labour and product market reforms, like easing formalities to start new business and the complexity of licensing procedures, as well as reforms in the pension, health care and taxation systems, to foster adjustment, competitiveness and growth. High public debt, structural rigidities and burdensome institutional arrangements remain of concern.

Finally, Portugal experienced structural rigidities and high public debt levels. To address these sources of instability, several reform packages were implemented. For instance, unemployment benefit rates were reduced, privatisation programmes were carried out, competition in retail trade was increased and barriers to entry in professional services were reduced. Besides, the VAT base was broadened and a number of deductions in income tax were eliminated.

A detailed and thorough assessment of the situation of programme countries can be found in the results of the review missions, published in 'European economy' and available on the website of the European Commission at the following address:
http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm.

4. CONCLUSION

This Communication describes some of the essential aspects of the "Two Pack", Regulation (EU) No 472/2013. Ambitious fiscal consolidation combined with far reaching structural reforms and financial repair, supported by external financial assistance – most commonly via macro-economic adjustment programmes – have helped contain financial market turmoil and stabilize markets subsequently.

Against this background, the Commission is of the opinion that Regulation (EU) No 472/2013 has so far proven an adequate framework for a strengthened monitoring and surveillance of the euro-area Member States experiencing or threatened with serious difficulties with respect to their financial stability.

The provisions entrusted in the "Two Pack" and the procedural norms enacted therein seem to allow for a more coordinated treatment across the euro-area Member States. However, as explained in this Communication, the short timeframe during which this Regulation has been in force provides limited evidence on which to base this evaluation. Enhanced surveillance, for example, remains to be tested, but the Regulation establishes a framework which should enable closer monitoring of euro-area Member States either threatened with, or experiencing, financial difficulties. Post-programme surveillance also remains to be tested.

A systematic and thorough assessment, building on the experience acquired, will take place at the occasion of the next review of this Regulation, which will be carried out in parallel with the review of the Regulation (EU) No 473/2013 and the "Six Pack" legislation.