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

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The Committee on Economic and Monetary Affairs has adopted an own-initiative report by Othmar KARAS (EPP, AT) and Liem HOANG NGOC (S&D, FR) on the enquiry on the role and operations of the Troika (European Central Bank (ECB), Commission and International Monetary Fund (IMF)) with regard to the euro area programme countries.

The report is to evaluate the functioning of the Troika in the ongoing programmes in the four countries: **Greece, Portugal, Ireland and Cyprus**.

The Troika: the institutional dimension and democratic legitimacy: because of the evolving nature of the EU's response to the crisis, the unclear role of the ECB in the Troika and the nature of the Troika decision-making process, the report noted that the Troika's mandate has been perceived as being **unclear and lacking in transparency and democratic oversight**.

Members pointed out that the rescue mechanisms and the Troika are of an ad hoc nature, and regretted that **there was no appropriate legal basis available** for setting up the Troika on the basis of Union primary law, which has led to the establishment of **intergovernmental mechanisms** in the form of the European Financial Stability Facility (EFSF), and eventually the European Stability Mechanism (ESM). They asked that **any future solution be based on Union primary law**, which might lead to the need for a Treaty change.

The report questioned the **dual role of the Commission** in the Troika as both an agent of Member States and an EU institution and asserted that there is a potential conflict of interest within the Commission between its role in the Troika and its responsibility as guardian of the Treaties and the acquis communautaire. It pointed equally to the potential 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. Furthermore, it regretted the fact that by reason of its statutes, **the IMF cannot appear formally before or report in writing to national parliaments or the European Parliament**. It stressed that the IMF's involvement as lender of last resort providing up to one third of the funding places the institution in a minority role.

Members regretted that the troika is lacking, because of its structure, the means of democratic legitimacy at EU level. They deplored the way **EU institutions are being portrayed as the scapegoat** for adverse effects in Member States' macroeconomic adjustment, when it is the Member States' finance ministers who bear the political responsibility for the Troika and its operations. It is therefore demanded that the **Eurogroup, the Council and the European Council assume full responsibility** for the operations of the Troika.

Proposals and recommendations:

1) In the short to medium term, the report called for: i) the establishment of clear, transparent and binding **rules of procedure** for the interaction between the institutions within the Troika and the allocation of tasks and responsibility therein; ii) the development of an improved **communication strategy** for ongoing and future financial assistance programmes.

Members recalled that the position adopted by the Parliament on Regulation (EU) No 472/2013 entailed introducing provisions requiring the macroeconomic adjustment programmes to include **contingency plans in case baseline forecast scenarios should not materialise** and in case of slippage due to circumstances outside the control of the Member State under assistance, such as unexpected international economic shocks. The report stressed that such plans are a prerequisite for prudent policymaking, given the fragility and poor reliability of economic models underpinning programme forecasts.
The report also stressed that pursuing economic and financial stability in the Member States and the Union as a whole **must not undermine social stability, the European social model or the social rights of EU citizens**. It called for the necessary involvement of the social partners in the design and implementation of current and future adjustment programmes.

The Commission is invited to start interinstitutional negotiations with Parliament in order to define a common procedure for informing the competent committee of Parliament on the conclusions drawn from the monitoring of the macroeconomic adjustment programme, as well as the progress made in the preparation of the draft macroeconomic adjustment programme.

Members proposed that for each programme country the Commission should set up a '**growth task force**' consisting inter alia of experts from (inter alia) the Member States and the EIB, in association with representatives of the private sector and civil society in order to suggest options to promote growth which would complement fiscal consolidation and structural reforms.

By the end of 2015, the Commission should present a detailed study of the economic and social consequences of the adjustment programmes in the four countries.

The report also called for: i) a **reassessment of the decision-making process of the Eurogroup** so as to include appropriate democratic accountability at both national and European levels; ii) the **integration of the ESM in the Union's legal framework** so that it becomes a Community-based mechanism.

2) In the longer term, the report recommended clarifying the respective roles and tasks of each participant in the Troika in the following ways:

- **The creation of a European Monetary Fund (EMF)**, which would combine the financial means of the ESM and the human resources that the Commission has acquired over the last few years, would take over the Commission's role, allowing the latter to act in conformity with Article 17 of the TEU and, in particular, to act as 'guardian of the Treaties';

- **the ECB would participate as a silent observer during the negotiation process**, in order to enable it to raise strong concerns in its advising role to the Commission, and later to the European Monetary Fund if appropriate;

- **the IMF, should its involvement be strictly necessary, would be a marginal** lender and therefore could leave the programme if in disagreement.

The next Parliament would be invited to pursue the work of this report.