EN 2016 NO 10

Special Report

Further improvements needed to ensure effective implementation of the excessive deficit procedure

EUROPEAN COURT OF AUDITORS

EUROPEAN COURT OF AUDITORS
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG

Tel. +352 4398-1
Enquiries: eca.europa.eu/en/Pages/ContactForm.aspx
Website: eca.europa.eu
Twitter: @EUAuditorsECA

More information on the European Union is available on the internet (http://europa.eu).

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(pursuant to Article 287(4), second subparagraph, TFEU)

Audit team

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by Audit Chamber IV — headed by ECA Member Milan Martin Cvikl — which specialises in auditing revenue, research and internal policies, financial and economic governance and European Union's institutions and bodies. The audit was led by ECA Member Milan Martin Cvikl, supported by the Head of his private office, Kathrine Henderson and Andreja Rovan, Attaché; Zacharias Kolias, Director; Albano Martins Dias da Silva, Head of Task; Giuseppe Diana, Marko Mrkalj, Maria Isabel Quintela, Marion Schiefele, Duarte Semedo Leite and Stefano Sturaro, auditors; Thomas Everett and Marek Riha, language support.

From left to right: G. Diana, M. Schiefele, A. Rovan, A. Martins Dias da Silva, Z. Kolias, M. M. Cvikl, S. Sturaro, M. I. Quintela, K. Henderson, T. Everett.

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Reply of the Commission

Abbreviations and acronyms

ACR: Autonomous Commission recommendation

AMECO: Macroeconomic database of the European Commission

DG Economic and Financial Affairs: Directorate-General for Economic and Financial Affairs

DG Migration and Home Affairs: Directorate General for Migration and Home Affairs

ECB: European Central Bank

ECOFIN: Economic and Financial Council

edp: Excessive deficit procedure

EEF: European economic forecast

EFC: Economic and Financial Committee

EMU: Economic and monetary union

EPP: Economic partnership programme

ESA: European System of Accounts

Eurostat: Statistical Office of the European Union

GDP: Gross Domestic Product

GFS: Government finance statistics

MTO: Medium-term budgetary objective

SCP: Stability or convergence programme

SDV: Standard dialogue visit

SGP: Stability and Growth Pact

TFEU: Treaty on the Functioning of the European Union

UDV: Upstream dialogue visit

Glossary

Actual data: Historical (not planned/forecast) data.

Bottom-up fiscal effort: A quantification of the fiscal impact of corrective measures, expressed as the aggregated impact of individual measures. See *Top-down fiscal effort*.

Budget balance: The balance between total public expenditure and revenue in a specific year, with a positive balance indicating a surplus and a negative balance indicating a deficit. For the monitoring of Member State budgetary positions, the EU uses general government aggregates. See also *Structural (budget) balance*, *Primary (budget) balance*.

Code of Conduct: Policy document with guidelines for the implementation of the Stability and Growth Pact and the format and content of stability and convergence programmes.

Convergence programmes: Medium-term budgetary and monetary strategies presented by Member States that have not yet adopted the euro. They are updated annually in accordance with the provisions of the Stability and Growth Pact. See also *Stability programmes*.

Cyclical component of budget balance: That part of the change in the budget balance which follows automatically from cyclical elements in the economy, due to the reaction of public revenue and expenditure to changes in the output gap. See *Structural (budget) balance*.

Data quality: Data quality means compliance with accounting rules, completeness, reliability, timeliness and consistency (Article 8(1) of Council Regulation (EC) No 479/2009).

Dialogue visit: Carried out by Eurostat in a Member State to review the actual data reported and review all relevant aspects of EDP data. Member States are visited at least every two years. DG Economic and Financial Affairs and the ECB act as observers.

From 2011 to 2013 Eurostat carried out both ‘standard’ and ‘upstream’ dialogue visits – the latter to assess the management and control of upstream public finance/systems data flows. These verifications are now included in standard dialogue visits.

Economic and Financial Committee (EFC): Formerly the Monetary Committee, the EFC is a Committee of the Council of the European Union set up by Article 134 of TFEU. Its main task is to prepare and discuss ECOFIN Council decisions with regard to economic and financial matters.

EDP inventory of sources and methods: Description of the procedures (methods) and basic statistics (sources) used by a Member State to produce estimates for EDP notifications. Includes ‘bridge tables’ showing the correspondence between public accounting items and the ESA headings, and a list of general government units classified by sub-sector and industry.

Glossary

EDP notifications and related questionnaires:
EDP notifications
Twice a year, Member States send their general government deficit and debt figures in the form of notifications comprising four groups of tables with information, for all levels of government, on the government deficit/surplus and debt levels, the adjustments made to the public accounts working balance to obtain the deficit/surplus, the factors contributing to the level of debt, and other compulsory data.

Related questionnaires
A set of tables containing standard information on revisions, adjustments, financial transactions and the application of Eurostat decisions.

ESA (ESA 95 and ESA 2010): The European system of national and regional accounts is the EU's internationally compatible accounting framework for the systematic and detailed description of the economies of the EU Member States and regions. For most of the audited period the relevant system was ESA 95, which was upgraded in September 2014 to ESA 2010, reflecting developments in measuring modern economies, advances in methodological research and the needs of users.

While the ESA is broadly consistent with the definitions, accounting rules and classifications applied by the comparable UN system, it also has some specific features which are more in line with EU practices.

European Semester: The annual cycle of economic policy coordination, which takes place over the first six months of the year. The European Commission undertakes a detailed analysis of Member States' programmes of economic and structural policies, and the European Council and the Council of Ministers provide policy advice before Member States finalise their draft budgets.

Financial/non-financial corporations:
Financial corporations sector (ESA 95, paragraph 2.32)
Includes all corporations and quasi-corporations which are principally engaged in financial intermediation (financial intermediaries) and/or in auxiliary financial activities (financial auxiliaries).

Non-financial corporations sector (ESA 95, paragraph 2.21)
Consists of institutional units whose distributive and financial transactions are distinct from those of their owners, and which are market producers whose principal activity is the production of goods and non-financial services.

Fiscal consolidation: An improvement in the budget balance through measures of discretionary fiscal policy, specified either by the amount of the improvement or the period over which the improvement is sustained.

General government: ESA 95 defines the 'general government' sector as 'All institutional units which are other non-market producers whose output is intended for individual and collective consumption, and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth'.

It is composed of four sub-sectors:

- central government - all administrative departments of the state and other central agencies whose responsibilities cover the whole economic territory of a country, except for the administration of social security funds;

- state government - institutional units that exercise some government functions below central government and above local government level, except for the administration of social security funds;

- local government - all types of public administration whose responsibility covers only a local part of the economic territory, except for local agencies of social security funds;

- social security funds - central, state or local institutional units whose main activity is to provide social benefits.

Government debt: The total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government as defined in ESA 95. It comprises currency and deposits, securities other than shares excluding financial derivatives, and loans (Maastricht debt).

Government deficit: The level of net borrowing as defined in ESA 95/ESA 2010, with certain adjustments.

Government finance statistics: Data on the economic activities of general government, including government revenue, expenditure, deficit, transactions in assets and in liabilities, other economic flows and balance sheets. European GFS are produced in accordance with the ESA, with additional interpretation and guidance from Eurostat.

Medium-term budgetary objective (MTO): According to the reformed Stability and Growth Pact, stability programmes and convergence programmes present a medium-term objective for the budgetary position. The MTO is country-specific to take into account the diversity of economic and budgetary positions and developments and of fiscal risks to the sustainability of public finances, and is defined in structural terms. See also *Structural (budget) balance*.

Methodological visit: An exceptional monitoring and verification visit carried out by Eurostat to a Member State where significant risks or problems with regard to data quality have been clearly identified.

One-off and temporary measures: Government transactions having a transitory budgetary effect that does not lead to a sustained change in the budgetary position. See also *Structural (budget) balance*.

Output gap: The difference between actual output and estimated potential output at given point in time. See also *Cyclical component of budget balance*.

Potential GDP: The level of real GDP in a given year that is consistent with a stable rate of inflation. If actual output rises above its potential level, constraints on capacity will start to bite and inflationary pressure will build; if output falls below the potential level, resources are lying idle and inflationary pressure will abate. See also *Output gap.*

Glossary

Primary (budget) balance: The budget balance net of interest payments on general government debt.

Primary/upstream data: Data collected by a national statistical institute (e.g. from administrative records, surveys, census) for the purpose of compiling aggregates (such as EDP transactions). The public accounts of government departments, agencies, etc. are an example of primary data.

Public accounts: Government financial statements (from departments, agencies and any public corporations classified as part of general government). They record state revenue and expenditure and are the main source for compiling EDP data.

Public debt: See *Government debt*.

Snowball effect: The self-reinforcing effect of public debt accumulation or decumulation arising from a positive or negative differential between the interest rate paid on public debt and the growth rate of the national economy.

Stability and Growth Pact (SGP): Approved in 1997 and reformed in 2005 and 2011, the SGP clarifies the provisions of the Maastricht Treaty regarding the surveillance of Member State budgetary policies and the monitoring of budget deficits during the third phase of economic and monetary union. The SGP consists of two Council regulations setting out legally binding provisions to be followed by the European institutions and the Member States, and two resolutions of the European Council in Amsterdam (June 1997).

Stability programmes: Medium-term budgetary strategies presented by Member States that have adopted the euro. They are updated annually in accordance with the provisions of the Stability and Growth Pact. See also *Convergence programmes*.

Stock-flow adjustment: The stock-flow adjustment (also known as the debt-deficit adjustment) ensures consistency between net borrowing (flow) and the variation in the stock of gross debt. It includes the accumulation of financial assets, changes in the value of debt denominated in foreign currency, and remaining statistical adjustments.

Structural (budget) balance: The actual budget balance net of the cyclical component and one-off and other temporary measures. The structural balance gives a measure of the underlying trend in the budget balance.

Top-down fiscal effort: A quantification of the fiscal impact of government policy, obtained by looking at the overall change in the structural balance. It may differ from the bottom-up quantification of effort due to the incomplete coverage of the latter, second-order economic effects or inconsistency in the ‘no policy change’ assumption.

Working balance: Public accounts revenue minus expenditure.

Executive summary

I

The Treaty on the Functioning of the European Union establishes it as a basic rule of budgetary policy that Member States must avoid excessive government deficits. Accordingly, where the reference values for deficit and debt are exceeded a corrective mechanism may be initiated against the Member State concerned. This mechanism, the excessive deficit procedure, is a key element of the EU's economic governance framework.

II

The Commission's role in implementing the excessive deficit procedure is to check the quality of the data notified by each Member State, to assess whether the reference thresholds have been breached, or risk being breached, and on this basis to address opinions and recommendations to the Council to act accordingly. The Council then decides, according to the Treaty provisions, whether or not to adopt the Commission recommendations.

III

Member States placed under an excessive deficit procedure are given recommendations to remedy the situation, including a deadline by which to correct the situation, a path for correction and an annual fiscal effort to be delivered. The Commission monitors the Member State's implementation of corrective measures and reports its findings to the Council. The Council, on the basis of Commission proposals, takes further action as appropriate (lifting the procedure, extending the deadline, setting new targets or imposing sanctions).

IV

The Court examined the Commission's implementation of the excessive deficit procedure between 2008 and 2015, focusing on six Member States. We considered the Commission's quality assessment of Member States' EDP data, the quality of its own forecast data and models and whether its assessments were in tune with the Council's decisions to launch a procedure. Lastly, we examined how the Commission monitored the corrective action taken by Member States under an excessive deficit procedure.

V

We found that, although detailed procedures and guidelines exist for most areas of the Commission's data collection and analysis and its assessment of compliance with the rules on budgetary discipline, there are problems with its implementation of these tasks. This is because the Commission did not make full use of its powers to enforce the provision of comprehensive data and compliance with recommendations for corrective action, and because of the failure at times to give adequate feedback on Member States' reports, the insufficient resources devoted to analysing and reporting on key data, and poor record-keeping.

VI

A related issue is that of transparency, where, despite improvements in recent years, too much information is still generally unavailable regarding the Commission's data assumptions and parameters and its understanding of key concepts. In addition, even where the Commission has set clear internal rules it may decide to depart from the established procedure, which raises questions about the overall reliability of its assessments.

VII

In the area of monitoring structural reforms, an aspect of corrective action which the Commission recently highlighted as crucial to overcoming an excessive deficit situation, there are signs that the Commission does not go far enough, as it essentially focuses on legislative aspects rather than the actual implementation of reforms. The excessive deficit procedure continues to over-emphasise the criterion of deficit rather than debt.

VIII

In conclusion, we find very positive signs in the Commission's efforts over the years to adapt and rationalise the excessive deficit procedure in response to developments in the EU. The legislative basis is sound and is generally supported by clear internal rules and guidelines. What has been lacking is consistency and transparency in the application of those rules; the Commission does not adequately record its underlying assumptions or share its surveillance findings for the greater benefit of all Member States. In recent statements, the Commission has acknowledged these shortcomings and indicated that it is prepared to make the necessary improvements.

IX

Our overall conclusions are explained in detail at the end of the report, and a number of specific recommendations are addressed to the Commission. Those recommendations are summarised below.

Our recommendations

(a) In the area of data collection and analysis, which is Eurostat's field of competence, the Commission should:

- (i) enhance its quality assessment procedures and better document its work;
- (ii) assess Member States' own control systems;
- (iii) take steps to improve the effectiveness of its on-the-spot verifications;
- (iv) make full use of the powers available to ensure that Member States implement follow-up action points;
- (v) maximise transparency by making public all advice and guidance to Member States;
- (vi) better document its internal procedures and criteria for setting reservations or making amendments to data.

(b) In assessing the situation in Member States leading to recommendations in connection with the EDP (this is the role of DG Economic and Financial Affairs), the Commission should:

(i) improve transparency by applying clear definitions, disclosing all calculation and assessment data and promoting the involvement of national fiscal councils to confirm the national data used in the Commission's analyses;

(ii) focus closely on the reduction of government debt, especially in heavily-indebted Member States;

(iii) strengthen its monitoring of the implementation of agreed structural reforms, including making full use of its powers to ensure Member States meet their commitments;

(iv) more strictly enforce the rules on Member States' reporting;

(v) exploit the option, where appropriate, of recommending that the Council take tougher action and impose sanctions.

Background on economic and fiscal governance policy in the EU

01
The Treaty on European Union, also known as the Maastricht Treaty, which entered into force on 1 November 1993, established the principles of economic and monetary union (EMU) and led ultimately to the euro as a common currency in 19 out of 28 Member States. The proper functioning of EMU required the introduction of a mechanism to safeguard the soundness of public finances and to reduce the risk of spillover from Member States pursuing unsuitable fiscal policies. This mechanism comprises two arms, one preventive and the other corrective. The preventive arm aims to ensure sound budgetary policies in the medium-term and avoid excessive deficit situations[1]. The corrective arm addresses excessive deficit situations and is known as the excessive deficit procedure (EDP). Member States that breach the ceiling on budgetary deficit or debt (respectively 3 % and 60 % of GDP) may be subject to an EDP.

02
The primary legal basis for the EDP is Article 126 of the Treaty on the Functioning of the European Union (TFEU) and Protocol No 12 annexed to that Treaty. These specify the different steps in the procedure and the reference thresholds. They are complemented by secondary legislation in the form of the Stability and Growth Pact (SGP), which was introduced in 1997 and provides operational clarifications on the circumstances in which an EDP should be launched.

03
The EDP has undergone several reforms (in 2005, 2011 and 2013) aimed at improving its implementation by strengthening reporting requirements and sanctions and introducing the flexibility to adapt the procedure to a changing economic environment. ***Figure 1*** provides an overview of the evolution of economic and fiscal governance policy in the EU, with measures related to the EDP highlighted in bold. ***Annex I*** contains a chronological list of EU legal instruments that are most relevant to the EDP.

1 An excessive deficit situation means that either the general government deficit or the general government debt or both exceed the respective reference values.

Figure 1

Evolution of economic and fiscal governance policy in the EU

1992

Treaty of Maastricht
- Establishes economic and monetary union
- Member States must coordinate their economic policies and submit to multilateral surveillance in this regard (Article 121 TFEU)
- **Member States undertake to observe financial and budgetary discipline and may be placed under the EDP if in an excessive deficit situation (Article 126 TFEU)**

1997

Stability and Growth Pact (SGP)
- Member States must submit stability or convergence programmes (SCPs) disclosing their medium-term budgetary plans
- Member States must pursue a nominal medium-term objective (MTO) for their budgetary position
- **Definition of temporary and exceptional excess deficit compared with a reference value**
- **Rules to speed up the EDP**
- **Sanctions (for euro-area Member States only) in the form of a non-interest bearing deposit**

2005

Reform of SGP
- MTO is redefined in structural terms (cyclically adjusted balance net of one-off and temporary measures) and made country-specific
- Deviations from the MTO or adjustment path are allowed in the event of major structural reforms
- **Structural effort**
- **New definition of 'severe economic downturn'**
- **Non-exhaustive list of 'other relevant factors', including pension reforms**
- **Extension of deadlines for the correction of excessive deficits**

2011

'Six-pack'
- European semester for economic policy coordination
- More detailed requirements on the content of SCPs; new expenditure benchmark: expenditure to grow less than potential GDP
- Requirements for budgetary frameworks in the Member States
- Macroeconomic imbalance procedure and sanctions
- **Operationalisation of the debt criterion (average annual reduction of 1/20th of the excess over 60 % for three years); three-year transitional period from the end of the EDP for the 23 Member States under an EDP as of November 2011**
- **Structural effort to be adjusted annually**
- **Reports on action taken**
- **Sanctions in the form of fines, to be approved by the Council**

2012

Treaty on Stability, Coordination and Governance (Fiscal Compact)
- 'Golden rule' of a structural deficit rule not exceeding the MTO, with a national automatic correction mechanism in the event of deviation. To be enshrined in national constitutions, national fiscal councils to monitor compliance.

2013

'Two-pack' (euro-area Member States only)
- Assessment of draft budgetary plans by national fiscal councils
- Enhanced surveillance of Member States experiencing or likely to experience serious financial stability difficulties; macroeconomic adjustment programmes; post-programme surveillance
- **Road map for structural reforms: economic partnership programmes**
- **Closer monitoring of Member States under an EDP: regular reporting (in-year budgetary execution report)**
- **Early-warning mechanism against risk of non-correction of the excessive deficit by the EDP deadline: autonomous Commission recommendations**
- **Swifter sanctions**

Note: Measures related to the EDP are highlighted in bold.

Source: ECA.

04
Most recently, on 21 October 2015 the Commission adopted a communication[2] on steps towards completing economic and monetary union to implement the 'Five Presidents' Report'[3]. The communication and its accompanying proposals are intended to take forward the process of deepening the EMU and boost competitiveness. The package of measures includes improved tools for economic governance, including the creation of national competitiveness boards and an advisory European Fiscal Board. The Commission has indicated that the steps proposed are both ambitious and pragmatic and will need concerted action from all actors involved.

The excessive deficit procedure: maintaining the soundness of public finances

05
The main parties to an EDP are the Member State, the Commission (DG Economic and Financial Affairs and Eurostat) and the Council.

(i) The Member State is required (a) to report statistical data to Eurostat twice a year (before 1 April and 1 October), (b) to correct the excessive deficit situation by the deadline given by the Council, (c) to deliver the fiscal effort required in the respective EDP recommendation, and (d) to report on action taken.

(ii) Eurostat is responsible for assessing the quality both of actual data reported by Member States and of the underlying government sector accounts.

(iii) DG Economic and Financial Affairs is responsible for assessing the Member State's compliance with the debt and deficit thresholds and monitoring its action to correct the excessive deficit situation.

(iv) The Council, on the Commission's proposal, decides to launch, to step up or to abrogate the EDP.

06
Figure 2 shows how these parties cooperate and interact at the various stages of the EDP.

2 COM(2015) 600 final of 21 October 2015 'On steps towards completing Economic and Monetary Union'.

3 'Completing Europe's Economic and Monetary Union', Report by Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015.

Figure 2 The EDP at a glance

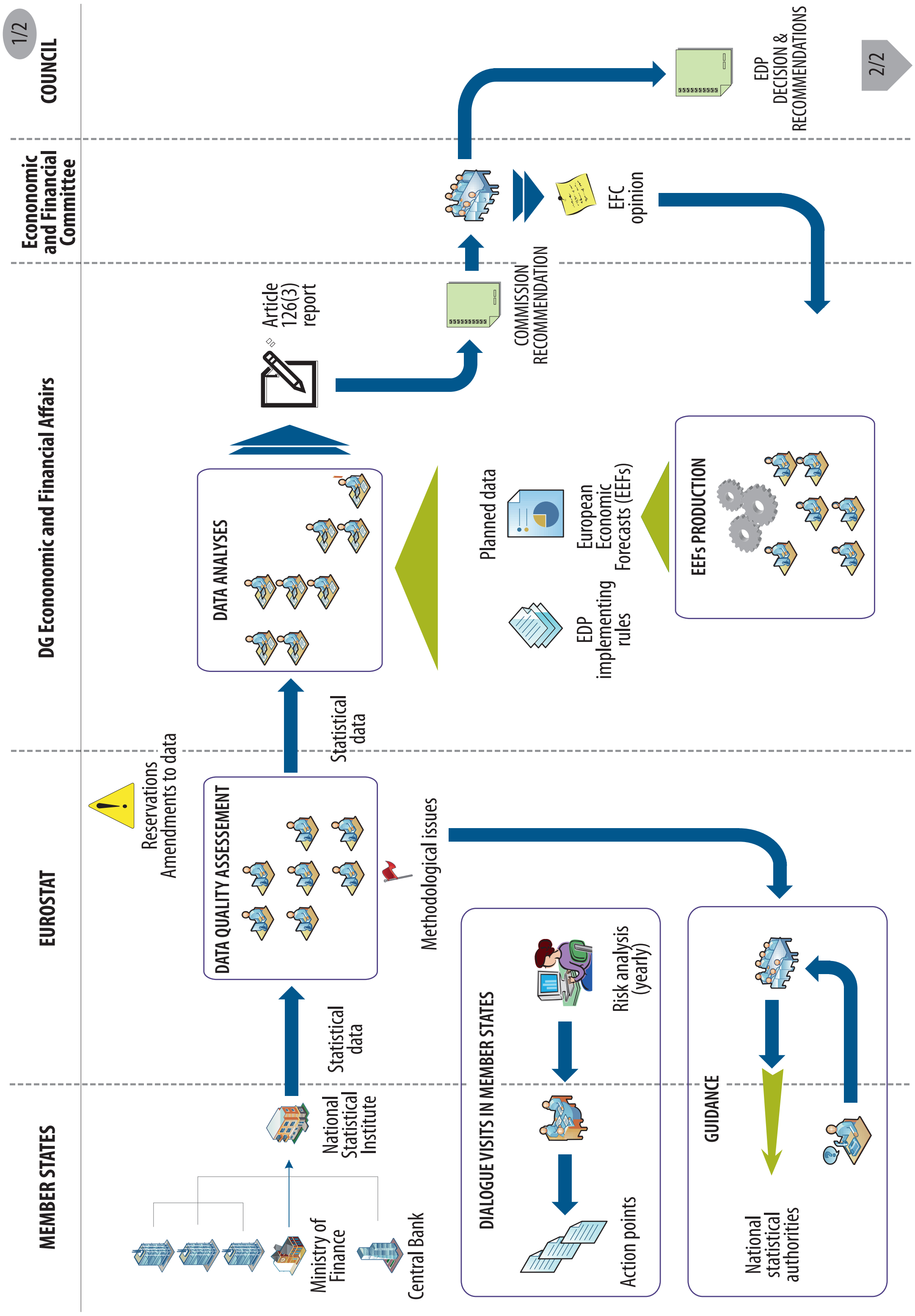
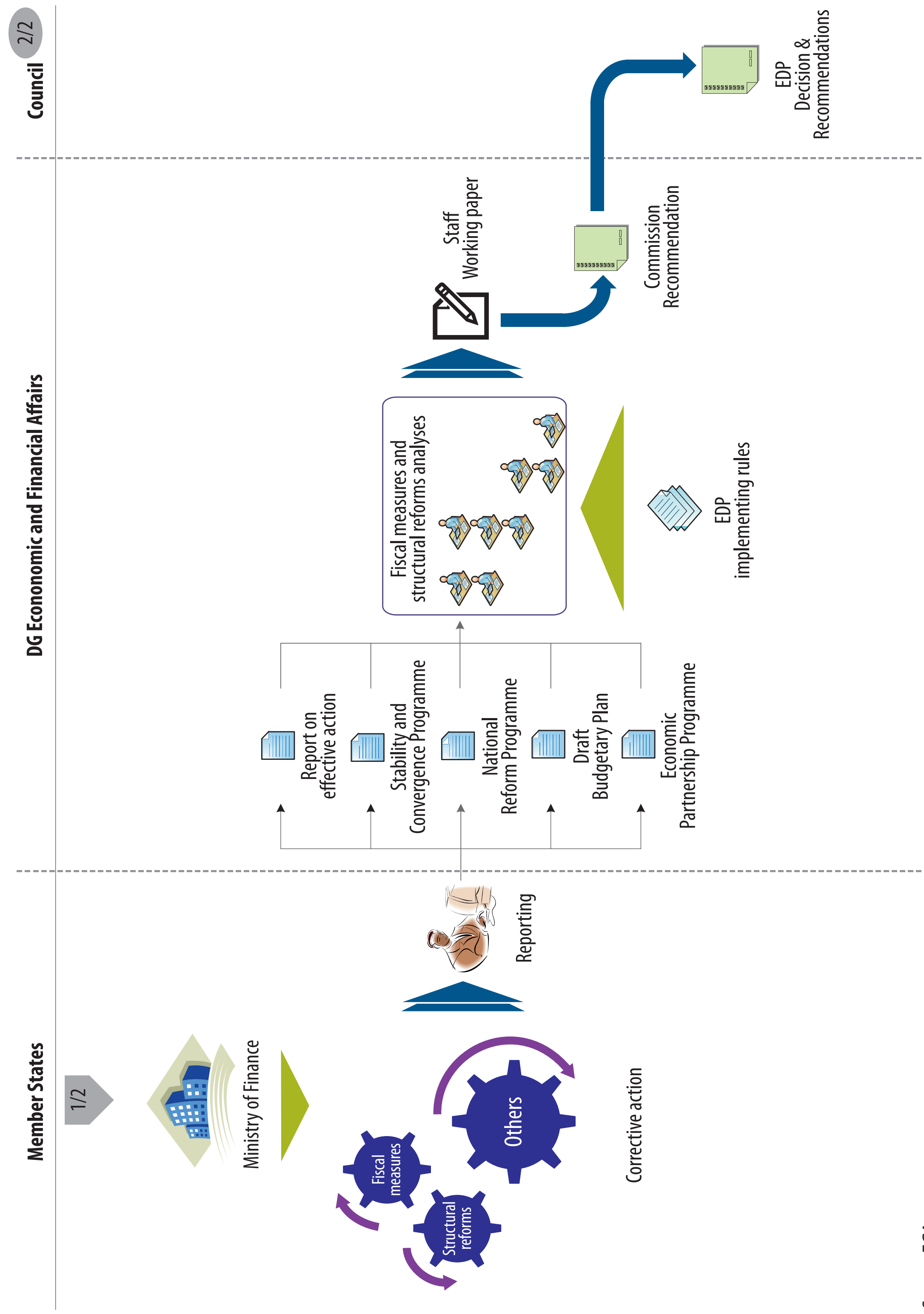


Figure 2



Source: ECA.

The EDP process: ensuring data quality, assessing the situation, initiating an EDP

07
This section covers the successive stages of the process leading to a decision.

Ensuring the quality of the data used to calculate the level of deficit and debt

08
Member States are required to compile EDP data in accordance with the European System of Accounts (ESA[4]) and the Manual on Government Deficit and Debt (MGDD), as well as Eurostat's decisions and guidance notes. These data, reported in standardised 'notification' tables and related questionnaires, are sent to Eurostat together with other government finance statistics (GFS) data and an inventory of sources and methods.

09
Each Member State decides how the EDP data are to be compiled. The national statistical institute (NSI) takes the lead role[5] and is responsible for compiling actual data[6], while planned data[7] are compiled by the ministry of finance. However, the ministry of finance and other government departments and the central bank usually also provide primary data and, in some cases, are jointly responsible for the compilation process. The NSI supplements its estimates from other data sources (financial statements of public units, business surveys, etc.).

10
Eurostat examines and assesses the quality both of the actual data reported by Member States and of the underlying general government sector accounts. Quality data presupposes compliance with the accounting rules (ESA and MGDD), completeness, reliability, timeliness and consistency. The assessment focuses on areas specified in the EDP inventories, such as the delimitation of the general government sector population (including exhaustiveness checks that all public units are covered), the classification of specific government transactions, liabilities and the accrual recording of transactions[8].

4 Previously ESA 95, now ESA 2010.

5 Except in Belgium, where this role is taken by the central bank.

6 'Actual data' is the term used for historical data. In the EDP notification for a given year N, actual data are to be submitted for the years N-1, N-2, N-3 and N-4.

7 The planned data for a given year N correspond to the forecast for that year.

8 Flows are recorded on an accrual basis; that is, when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled (see ESA 95, paragraph 1.57).

11

Eurostat also makes 'dialogue visits' to Member States to verify and assess the EDP data and reporting processes, including whether they comply with the accounting rules. Where significant risks and problems in the quality of data are identified, Eurostat may carry out 'methodological visits' (so far only one such visit has been made, to Greece)[9].

12

Following its quality assessment, Eurostat forwards the data to DG Economic and Financial Affairs for economic analysis. However, where there is evidence that the data reported by a Member State do not comply with the accounting rules, Eurostat may express a reservation as to the quality of the actual data[10] or make amendments[11]. It may also initiate an investigation into manipulation of statistics. In such cases fines of up to 0.2 % of GDP can be imposed[12].

Assessing the situation

13

DG Economic and Financial Affairs analyses the actual Member State data provided by Eurostat, and its own European economic forecasts produced in the context of the European Semester[13], to monitor the evolution of deficit and debt and to assess Member States' plans for convergence towards the reference thresholds. The data are analysed according to a framework of rules and guidance. DG Economic and Financial Affairs maintains regular contact with the Member States throughout this process to obtain information on local developments.

14

The objective of the analysis is to:

(i) assess whether a Member State has breached the deficit and/or debt criteria, taking account of any particular circumstances (severe economic downturn, recent trends and forecasts for indicators, adjustment for potential output, etc.);

(ii) if a breach of either the deficit or the debt criteria is identified in a Member State, prepare a report under Article 126(3), which considers in detail a series of aggravating and mitigating factors, and assesses the case for launching an EDP; the report is sent to the Economic and Financial Committee (EFC)[14] for an opinion; and

(iii) if an excessive deficit situation is recognised, inform the Member State and the Council and recommend that the latter launch an EDP with deadlines for the Member State to take corrective action.

9 Methodological visits are designed to monitor the processes and verify the accounts underlying the reported data and to draw conclusions as to the quality of the latter. Eurostat carries out methodological visits in exceptional cases, where significant risks or problems with respect to the quality of the data are clearly identified.

10 By expressing a reservation, Eurostat indicates that it does not consider the data concerned to be of sufficient quality; it announces this publicly through the press release associated with the notification.

11 Eurostat may unilaterally amend a Member State's data where it is able to estimate the impact of the reservation with sufficient accuracy.

12 See Article 8 of Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, p. 1), and the Commission Delegated Decision 2012/678/EU on investigations and fines related to the manipulation of statistics (OJ L 306, 6.11.2012, 21).

13 DG Economic and Financial Affairs produces economic forecasts on behalf of the Commission. They serve as a basis for various economic surveillance procedures, for example in the context of the European Semester, and are published three times a year (spring, autumn and winter).

14 The Economic and Financial Committee is a working group set up to promote policy coordination among the Member States, notably by supporting the work of the ECOFIN Council. It is composed of senior officials from national administrations and central banks, the ECB and the Commission. Further information on its organisation and objectives can be found in Article 134 of the TFEU and at http://europa.eu/efc/index_en.htm.

Initiating an EDP

15
It is the Council which decides whether to place a Member State under an EDP. The Member State is then informed accordingly and the decision is published. The Council sets a deadline for addressing the situation (in principle one year from the detection of the excessive deficit, although several multiannual EDPs were launched in 2009 due to the financial and economic crisis). ***Table 1*** summarises all the Council's EDP decisions to 17 November 2015.

16
In the case of multiannual EDPs, the Council also sets annual fiscal targets. Through its recommendations, moreover, it usually calls for the development and implementation of national structural measures, such as public expenditure reform.

17
At this point, euro-area Member States that have already been sanctioned for non-compliance with the recommendations based on Article 121(4) TFEU on the preventive arm of the Pact, or whose breach of the deficit and debt ratios is especially serious, may also face a fine in the form of a redeemable non-interest-bearing deposit of 0.2 % of GDP.

Table 1

Excessive deficit procedures launched so far

	Closed		Ongoing	
	Council decision initiating an EDP	Council decision abrogating the EDP	Council decision on initiating an EDP	Current deadline for correction
Belgium	2.12.2009 2015	20.6.2014 2015[1]	-	-
Bulgaria	13.7.2010	22.6.2012	-	-
Czech Republic	5.7.2004 2.12.2009	3.6.2008 20.6.2014	-	-
Denmark	13.7.2010	20.6.2014	-	-
Germany	21.1.2003 2.12.2009	5.6.2007 22.6.2012	-	-
Ireland	-	-	27.4.2009	2015
Greece	5.7.2004	5.6.2007	27.4.2009	2016
Spain	-	-	27.4.2009	2016
France	3.6.2003	30.1.2007	27.4.2009	2017
Croatia	-	-	21.1.2014	2016
Italy	28.7.2005 2.12.2009	3.6.2008 21.6.2013	-	-
Cyprus	5.7.2004	11.7.2006	13.7.2010	2016
Latvia	7.7.2009	21.6.2013	-	-
Hungary	5.7.2004	21.6.2013	-	-
Lithuania	7.7.2009	21.6.2013	-	-
Luxembourg	2010	2010[1]	-	-
Malta	5.7.2004 2009 7.7.2009 21.6.2013	5.6.2007 2009[1] 4.12.2012 19.6.2015	-	-
Netherlands	2.6.2004 2.12.2009	7.6.2005 20.6.2014	-	-
Austria	2.12.2009	20.6.2014	-	-
Poland	5.7.2004 7.7.2009	8.7.2008 19.6.2015	-	-
Portugal	5.11.2002 20.9.2005	11.5.2004 3.6.2008	2.12.2009	2015
Romania	7.7.2009	21.6.2013	-	-
Slovenia	-	-	2.12.2009	2015
Slovakia	5.7.2004 2.12.2009	3.6.2008 20.6.2014	-	-
Finland	13.7.2010	12.7.2011	-	-
United Kingdom	2004 24.1.2006	2004[1] 9.10.2007	8.7.2008	Financial year 2016/17

[1] The Commission issued an Article 126(3) report which did not give rise to a Council decision.
Source: DG Economic and Financial Affairs website (as at 17.11.2015).

Corrective action: reporting by Member States, monitoring and surveillance by the Commission

18
This section describes how corrective measures are reported to and monitored by the Commission.

Reporting by Member States

19
Member States are responsible for developing and implementing corrective measures to restore fiscal stability in accordance with the Council's recommendations.

20
They are required to keep DG Economic and Financial Affairs informed about the measures planned and/or adopted and developments in their fiscal and economic situation[15]. They must submit a report on action taken and disclose EDP-relevant information in their stability or convergence programmes[16] and national reform programmes[17] prepared in the context of the European Semester. Before the 'Six-pack' (2011), Member States were not legally obliged to submit a report on action taken. The 'Two-pack' then introduced additional reporting requirements for euro-area Member States (see ***Figure 1*** and ***Figure 7***) to enhance the Commission's monitoring and surveillance.

Monitoring and surveillance by the Commission

21
DG Economic and Financial Affairs is responsible for examining whether a Member State has complied with the Council's recommendations, for monitoring the implementation of EDP corrective measures and for proposing further action.

15 Member States must report within the deadlines set by the Council under Article 3(4) of Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33) for compliance with the recommendations (from three to six months depending on the seriousness of the situation).

16 Under the SGP, stability and convergence programmes are submitted once a year, the former by euro-area Member States and the latter by Member States outside the euro. They set out the Member State's budgetary plan for the next three or four years.

17 A document which presents the country's policies and measures to sustain growth and jobs and reach the Europe 2020 targets. It is presented in parallel with each annual stability/convergence programme.

22

DG Economic and Financial Affairs carries out assessments of the action taken by each Member State under an EDP:

(i) as early as three or six months from the launch of the procedure on the basis of the Member State's report on the action taken in response to the Council recommendations;

(ii) regular monitoring coinciding with each forecast, in the light also of information disclosed by the Member State in its stability/convergence programme and, for euro-area countries, its draft budgetary plan; and

(iii) at the expiry of the deadline, unless the procedure is abrogated.

23

More specifically, DG Economic and Financial Affairs assesses whether the Member State has announced or taken measures that seem adequate to ensure sufficient progress towards correction of the excessive deficit within the time limits set by the Council.

24

Depending on the assessment made, DG Economic and Financial Affairs will propose different actions to the Council:

(i) where the Commission considers that the Member State has complied with the recommendations and that the EDP requirements are likely to be fulfilled, the procedure will be 'held in abeyance[18];

(ii) where there has been effective action[19] but 'unexpected adverse events with major unfavourable consequences for government finances have occurred'[20], a revised recommendation may be proposed. The revised recommendation may extend the deadline for correction of the deficit, usually by one year, or may set out new nominal and structural targets linked to a new underlying macroeconomic scenario, without extending the deadline;

(iii) where there has been no effective action and the Member State is in the euro area, the EDP may be 'stepped up'. The Council will issue a notice inviting the Member State to take specific measures and to submit reports by set deadlines, and if the Member State fails to comply with this notice the Council can impose sanctions[21]. Where applicable, the Council may decide to suspend payments under the Cohesion Fund and, with effect from the 2014-2020 programming period, the European Structural Investment Funds.

18 Article 9 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6). While a procedure is in abeyance, the Council and Commission regularly monitor the Member State's compliance with the recommendations. Depending on the conclusions of monitoring, the procedure can be either abrogated or reactivated.

19 Member States that have delivered a fiscal effort in line with the recommendations are assessed as having taken effective action.

20 Article 3(5) of Regulation (EC) 1467/97.

21 As set out in Article 126 and Article 139 TFEU and Article 10 of Regulation (EC) No 1467/97, as amended.

Outcome of EDP

25
The expected outcome of the EDP decision and corrective action is that the Member State will restore budgetary discipline, and hence the sustainability of its public finances, by correcting the excessive deficit within a reasonable deadline. The EDP decision is also intended to foster the implementation of structural reforms in the Member State, which is conducive to public finance stability in the medium/long term.

Audit scope, objectives and approach

Audit scope and objectives

26
The Court assessed whether the Commission is managing the implementation of the EDP appropriately. For this purpose we looked at the procedure as applied to Cyprus, the Czech Republic, France, Germany, Italy and Malta[22] between April 2009 and May 2015[23]. In relation to the quality of data, we looked at the period 2008 - 2014 and, where necessary, back to 2005.

27
However, although we analysed some of the details underlying the definition of the EDP threshold values, we did not assess the appropriateness of these values, nor did we assess the quality of the measures taken by Member States to implement the procedure.

28
More specifically, we examined:

(i) the Commission's assessment of the quality of Member States' statistical data (Eurostat) and its interpretation of those data (DG Economic and Financial Affairs) leading ultimately to recommendations that the Council initiate or take further action in relation to an EDP;

(ii) the Commission's monitoring and surveillance tasks; and

(iii) the outcome of the procedure.

29
The main audit criteria were derived from:

(i) regulatory requirements (e.g. Council regulations, decisions, directives and conclusions); and

(ii) the Commission's internal rules and procedures (e.g. instructions and guidelines).

22 In Malta two separate procedures were launched during the period.

23 The sample was taken from a shortlist of Member States which excluded countries that (i) are currently addressed by other Court audit tasks in the financial and economic governance area (Hungary, Ireland, Latvia, Portugal, Romania and Greece), (ii) have never been placed under an EDP (Estonia, Sweden and Luxembourg), (iii) benefit from special or unique conditions in relation to the EDP (United Kingdom), or (iv) only recently joined the European Union (Croatia).
In selecting among the remaining Member States, the aim was to obtain a representative sample of large and small countries, both within and outside the euro area, and, as far as possible, of procedures launched after 2008 that have since been, or could have been, closed.

Approach

30
We reviewed the documentation relating to the separate EDPs. We also interviewed Eurostat and DG Economic and Financial Affairs staff and representatives of the institutions involved in implementing the procedure in each of the Member States selected for the audit. ***Table 2*** lists the entities visited in each Member State.

31
Finally, we discussed EDP issues with representatives of several organisations whose views were relevant to the audit (including representatives of the IMF and of the United Kingdom Office for Budget Responsibility), and for more technically complex aspects we made use of specialised internal and external expertise.

Table 2

Visits to Member State authorities and other entities

	Supreme Audit Institution	National Statistical Institute	Ministry of Finance	Fiscal Council	Central Bank	Others
Czech Republic	√	√	√			
Germany		√	√		√	
France		√	√			
Italy	√	√	√	√	√	Economic Adviser to the Presidency of the Council of Ministers
Cyprus	√	√	√	√	√	DG Economic and Financial Affairs resident representative
Malta	√	√	√		√	

Source: ECA.

EDP process: improvements needed to strengthen the basis of the EDP and enhance the objectivity of assessments

An appropriate framework for decisions, but greater clarity needed

32
This section examines the Commission's procedure for analysing the data and assessing compliance prior to recommending a decision.

The Commission examines extensively the quality of the statistical data…

33
Eurostat is responsible for assessing the quality of the statistical data used in the EDP process. Its role in this task has developed significantly since 1993, specifically through the introduction of new tools and new discretionary powers (***Figure 3*** shows how the main legal framework has evolved since the Maastricht Treaty).

Figure 3

Evolution of the main legal framework governing Eurostat's quality assessment of EDP statistics

1993

- **Definition of the data (planned deficit and actual deficit and debt) to be provided by Member States, as well as periodicity and deadlines.**
  (Regulation (EC) No 3605/93)

1997

- **Definition of Eurostat's role and responsabilities (to analyse statistical data, provide advice and support to Member States, promote cooperation and develop statistical methods).**
  (Commission Decision of 21 April 1997)

2005

- **Member States are required to send new information (planned debt and additional information, including an inventory) within new EDP reporting deadlines, to make EDP data public, to report major revisions and to consult Eurostat on difficult issues. Eurostat is required to regularly assess the quality of data and to report within three weeks, to carry out dialogue visits and, where necessary, methodological visits. Eurostat is given the possibility of expressing reservations as to the quality of actual data or making amendments.**
  Regulation (EC) No 2103/2005 amending Regulation (EC) No 3605/93)

2009

- **Eurostat is granted access to NSIs and all the data sources in a Member State, and empowered to decide on matters of interpretation. An indicative list of cases that may trigger a methodological visit.**
  (Regulation (EC) No 479/2009, as amended; Regulation (EC) No 223/2009)

2011

- **Possibility of imposing fines where statistics have been manipulated.**
  (Council Regulation (EU) No 1173/2011; Commission Delegated Decision of 29 June 2012)

2014

- **Implementation of ESA 2010 in the compilation of EDP data with effect from September 2014.**
  (Commission Regulation of 7 March 2014 amending Regulation (EC) No 479/2009)

Source: ECA.

34
Eurostat has itself made significant further efforts to develop its approach and improve the quality assessment process. Between 2008 and 2014 it introduced many new measures. Most importantly, in 2011, having reviewed its EDP data quality assessment structures and processes, Eurostat made resourcing and procedural changes. For example, upstream visits were initiated to assess the quality of the systems generating primary data. See ***Figure 4*** for further details.

Figure 4

Assessment of data quality by Eurostat (main improvements since 2011)

Resources	Procedures	Control
o dedicated Directorate for Government finance statistics o assignment of around 50 staff to EDP work (three times as many as a few years before) o establishment of a team of desk officers, each responsible for a maximum of two Member States o establishment of a team of methodologists who also take part in missions	o introduction of standardised procedures and agendas in EDP dialogue visits o internal establishment of annual country risk assessments o introduction of standardised procedures for the provision of guidance (bilateral and on complex issues)	o implementation of extensive analysis of EDP notifications and the related questionnaires, allowing a more detailed analysis of deficit and debt o introduction of 'upstream' dialogue visits o more powers granted to access all the EDP data underlying the compilation process o power to recommend financial sanctions for deliberate misreporting or serious negligence in the reporting of EDP statistics

Source: ECA, based on Eurostat information.

… on the basis of comprehensive and widely disseminated internal rules and guidance…

35
Commission recommendations to launch an EDP are predicated on the results of specific analyses by DG Economic and Financial Affairs. These analyses are based in turn on a set of internal rules, instructions and guidelines that explain how they are to be performed and describe the most relevant underlying concepts.

36
Most of these internal rules, instructions and guidelines can be found in a 'Vademecum on the Stability and Growth Pact' (available to the public[24]) and 'Specifications on the implementation of the Stability and Growth Pact' (also known as the 'Code of Conduct'[25]). They address all the most relevant issues.

37
Moreover, given the underlying importance of the rules, instructions and guidelines to the Commission's proposals on the launch of an EDP, DG Economic and Financial Affairs regularly prepares analytical and operational notes for the EFC in order to explain to Member States its approach to interpreting and implementing the SGP.

… applying a widely-used methodology to produce forecasts…

38
The Commission's regular European economic forecasts (spring, autumn and winter) are another important part of its analyses leading to a decision whether or not to propose launching an EDP. The generation of forecasts combines elements at country level – prepared by DG Economic and Financial Affairs's country desks – with centralised elements produced by the horizontal unit (see ***Box 1***). Overall, about 150 staff from different units within DG Economic and Financial Affairs are involved in the process.

24 DG Economic and Financial Affairs Occasional Papers 151, May 2013.

25 Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes, 3 September 2012.

Box 1

Generating European economic forecasts

Two months before the expected publication date, DG Economic and Financial Affairs prepares a position paper setting out general assumptions. Forecasting is then based on an iterative process with cross-verification to ensure consistency between the country-level and central forecasts.

The country desks each prepare country-specific macroeconomic and fiscal forecasts. To do this they use a spreadsheet tool based on a centrally-managed template, as well as additional tools that reflect country-specific characteristics such as data availability and economic structure.

The horizontal unit adds follow-up calculations based on the projections by the country desks (e.g. the output gap and cyclically-adjusted fiscal figures) and performs quality checks, which include:

- ensuring that a common set of external assumptions is used;
- checking numerical and economic consistency between country desk forecasts;
- checking the consistency of the country desks' trade flow projections.

39
The Commission's forecasting procedure is complex. However, it is structured in a similar way to that of other international organisations (e.g. IMF, OECD, ECB), as a mix of top-down and bottom-up elements. This set-up allows country forecasts to be tailored to the country-specific characteristics without losing central oversight. Furthermore, in terms of overall forecast accuracy, the Commission's economic forecasts do not deviate significantly from those produced by peer organisations[26].

40
Compared with those of its peers, the Commission's country forecasts are more heavily reliant on expert judgement and less on econometric approaches. This poses difficulties when it comes to evaluating and assessing their validity.

26 A number of studies have been carried out in this respect. Among the most recent are those referred to on p. 27 of OECD Economics Department Working Paper No 1107 (2014), which is available at http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-forecasts-during-and-after-the-financial-crisis_5jz73l1qw1s1-en, and in the Commission's Economic Paper 476 of December 2012, at http://ec.europa.eu/economy_finance/publications/economic_paper/2012/ecp476_en.htm (this is a comparative analysis of the accuracy of European Commission, IMF and OECD economic forecasts).

… that still lack transparency

41

Some Member State authorities interviewed believe that the forecasting process lacks transparency, in particular with regard to the detailed country-specific assumptions made for fiscal indicators. If differences arise between the Commission's projections and those made nationally, the Member States find it impossible to evaluate them because the Commission does not sufficiently disclose the details of its assumptions in its talks with national authorities.

42

This is consistent with our experience when reviewing the forecasts. Discrepancies between the Commission's forecasts and those produced by the Member States can be explained by different underlying assumptions. However, identifying the assumptions that are responsible for such discrepancies is not an easy task given the multiplicity of spreadsheets and expert opinion. In addition, there is no standard summary (e.g. in the form of a reconciliation table) clearly outlining the differences between the Commission's and Member States' estimates for the fiscal indicators that are used as the basis for the Commission's recommendations.

43

The above should be seen in the light of the rules, which state that 'the Commission shall make public the methodologies, assumptions and relevant parameters that underpin its macroeconomic and budgetary forecasts'[27]. Nevertheless, the Member State authorities also noted that the Commission's disclosure of information has significantly improved over the years.

44

Changes in economic knowledge and the structure of the economy call for continuous improvements to the forecasting process. In recent years, the Commission has taken a number of steps to enhance its forecasting. For instance, the main forecasting template has been overhauled, the level of detail for some economic sectors has been increased, and an elaborate new tool for detecting additional data inconsistencies has been introduced. Furthermore, the Commission is developing a pilot forecast model, initially for the euro area as a whole, and country-specific modules, with the eventual aim of using the model to deliver quality checks that complement its judgement-based forecasts[28].

27 Article 4(2) of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

28 See the Commission's reply to recommendation 2 in Special Report No 18/2015 'Financial assistance provided to countries in difficulties' (http://eca.europa.eu).

45
Further improvement is necessary. The Commission publishes the relevant external forecast assumptions and other technical assumptions, but implicit country-specific assumptions are not described and were very hard to infer from the spreadsheets. Furthermore, DG Economic and Financial Affairs considers the spreadsheets to be internal documents – not to be shared outside the Commission.

Shortcomings in the process of examining statistical data still need to be addressed, …

46
Eurostat's examination of statistical data includes verifications carried out either in-house (data quality assessments) or on-the-spot (dialogue visits). These are complemented by guidance provided either bilaterally (at the request of a Member State), or, as a Eurostat initiative, on particularly complex issues.

Data quality assessment

47
Eurostat carries out an extensive analysis of the statistical data received from Member States and their answers to requests for clarification in the three weeks following each of the two annual EDP notifications (see paragraph 10). Outside this period, Eurostat also carries out in-house verification of methodological and other data-related issues, complemented by dialogue visits to Member States.

48
There is still room to document the in-house verification process more comprehensively. At present it can be difficult to see how individual quality assessments were carried out and, therefore, to understand the reasons for the assessment. It can also be more difficult to demonstrate that assessments are carried out in a consistent way. ***Box 2*** gives some examples of weak documentation.

Box 2

Some examples of weak documentation by Eurostat

In the six Member States visited, there were cases where the authorities were asked if they applied the necessary criteria but were not required to substantiate their replies. Examples included the recording of privatisations and dividends.

One Member State sent data on interest and financial statements, but the assessment made by Eurostat was not well documented.

Without further substantiation, one Member State simply confirmed as briefly as possible that interest was calculated on an accrual basis.

There is no evidence of any systematic or detailed Eurostat analysis of the information in bridge tables[29]. Eurostat has never provided feedback to Member States on the quality of bridge tables.

29 Bridge tables show the correspondence between the items in the public accounts and the ESA classifications.

49

In addition, the data provided by the Member States are not always complete. This applies to both mandatory and voluntary data, as the latter are also often used in Eurostat assessments. ***Annex II*** gives some examples of missing information.

50

Most of the quality assessment process is governed by internal written procedures and guidance setting out how data should be analysed. However, it could be made more explicit how the existing rules and guidelines (ESA and MGDD) are to be applied in one key area: the classification (delimitation) of public institutional units within the general government sector (i.e. which entities/bodies are to be included in the calculation of government debt and deficit). This could improve the coverage and consistency of the assessment (see ***Annex III***).

51

We examined the classification of a number of public institutional units in the six Member States in the sample. We found that in some cases the ESA 95 rules for the classification of units[30] should have been analysed in greater depth. We also found that the six Member States applied different time spans for analysing and classifying public units (see ***Box 3*** for some examples).

30 According to the accounting rules, to establish the population of the general government sector each institutional unit must be analysed in terms of its main function, nature and control arrangements. If the main function of a unit is to distribute wealth, it should be included in general government. Units engaged in financial intermediation should be classified in the financial corporations sector. Units not subject to general government control should be classified outside general government. In terms of their nature, units under general government control should be classified within the general government sector if they qualify as non-market after the application of the 50 % criterion which states that a unit is 'market' if the ratio between sales and costs of production is above 50 % and 'non-market' if it is below 50 %. Sales cover the sales of goods and services, excluding taxes on products but including all subsidies on products (all payments linked to the volume or value of output), but payments to cover an overall deficit are excluded.

Box 3

Some examples of classification weaknesses in documents from the six Member States examined

- cases not fully compliant with ESA 95 but accepted by Eurostat, such as exhaustiveness, different approaches - in classifying units;
- the main weaknesses found in the classification of public institutional units;
- weaknesses in relation to the procedures and timing for analysing and (re)classifying units within/outside the general government sector.

For more details see ***Annex III***.

Dialogue visits

52
Eurostat has used two types of visits to Member States to verify the data used in the EDP process. The first type is the standard dialogue visit (SDV), which is used to review data, examine methodological issues and assess the NSI's compliance with the accounting rules. SDVs are made to each Member State at least once every two years. Secondly, from 2011 to 2013 Eurostat also undertook 'upstream' dialogue visits (UDVs) as a means of assessing the management and control of upstream public finance/systems data flows from the various providers of EDP statistical data to the NSI, which uses them to compile deficit and debt statistics. The objective of these visits was to identify, assess and monitor significant risks or problems with a view to taking corrective action. UDVs were incorporated into SDVs as of 2014. ***Table 3*** shows the dates of dialogue visits during the audited period.

Table 3

Dialogue visits carried out in the period 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Czech Republic		August (SDV)		May (SDV)	May (UDV) November (SDV)		November (SDV)
Germany		May (SDV)		May (SDV)		June (UDV) October (UDV)	February (SDV)
France	June (SDV)		November (SDV)		November (SDV)		June (SDV)
Italy		March (SDV)		June (SDV)	November (UDV)	February (SDV)	
Cyprus	December (SDV)		December (SDV)		September (SDV)		September (SDV)
Malta	January (SDV)		July (SDV)		May (SDV)		May (SDV)

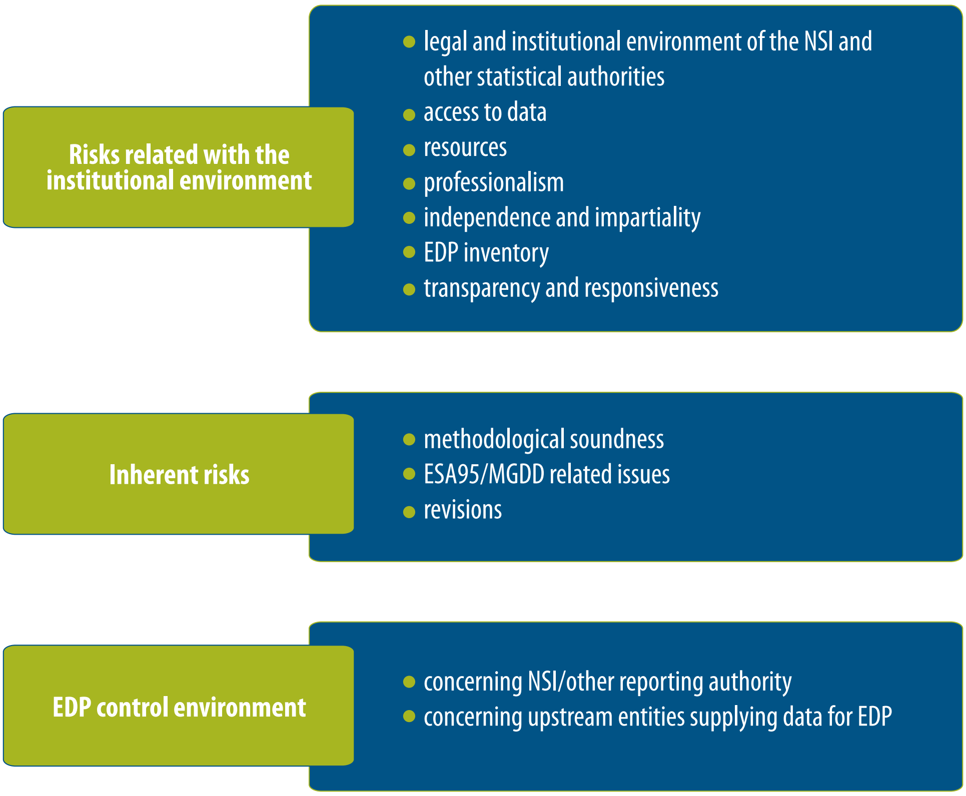
Source: ECA, based on Eurostat information.

53

Eurostat uses a risk analysis model to identify the risks associated with the collection and compilation of EDP statistics in a Member State. The risk assessment is carried out once per year and per Member State. It is a well-structured and comprehensive model that covers all the aspects of the compilation process (see ***Figure 5***). The risk analysis was mainly used to rank the Member States to be visited for a UDV. However, it could have been better documented. For example, we did not always find written explanations for changes from one year to the next in the likelihood and/or the impact of the risks assessed. There was also no evidence that high-risk topics were selected for the visits.

Figure 5

Risk analysis model



Source: ECA, based on Eurostat information.

54

From 2006 to 2014, the average duration of SDVs and UDVs in the six Member States selected was 1.7 and 3.5 days respectively. The number of topics to be covered varied from three to ten for SDVs and from four to seven for UDVs. As a rule, the agenda of a dialogue visit includes five standard points[31] and a number of specially selected issues. In exceptional cases, where the country is visited more frequently or the purpose is to discuss a limited number of issues, the agenda might include fewer items. Given that the team consists of three to four staff, it is unlikely that the time on site is sufficient to cover all the ground in sufficient depth and so data quality issues may not be adequately examined.

55

Eurostat's assessment of EDP data quality is reliant on Member States' statistical systems. Consequently, it must have assurance, not only that EDP data are compliant with the ESA standards but also that, notwithstanding their different statistical systems, Member States apply a consistent approach to data compilation. During the period examined, Eurostat visits covered the institutional arrangements in place in Member States, namely the existence of formal agreements binding the national authorities under an EDP. Although recommended, this is not a legal obligation. In the course of its UDVs, Eurostat also reviewed the quality of EDP systems, mainly in relation to upstream data. Eurostat does not have formal written rules in this regard, and we did not find any evidence that desk officers assess Member States' own supervisory and control systems. Without much documentation on the supervisory and control systems in place for data compilation, it is not possible to implement a systems-based approach for examining the quality of the data received.

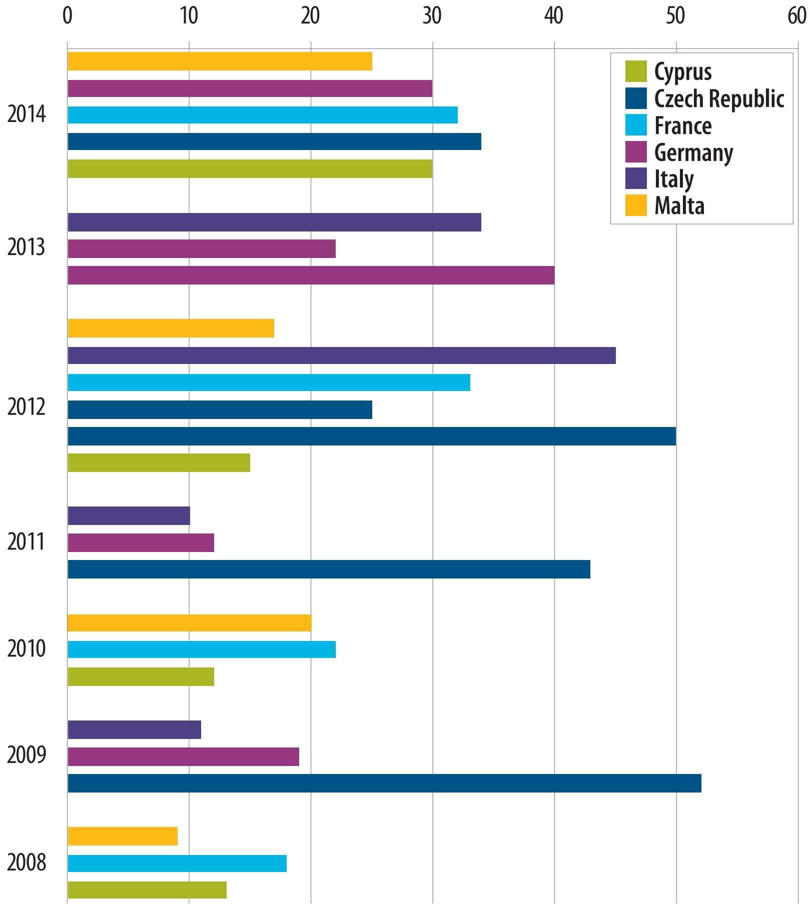
56

For the Member States examined, reports were published between nine and 52 weeks after the corresponding visits (see ***Figure 6***). On-the-spot verifications may trigger 'action points' that the Member State should implement so as to address weaknesses found in the course of the verifications. Action points are non-mandatory and often take a long time to resolve. In the six Member States, approximately one third of action points had not been resolved within the deadline set by Eurostat. However, we found no cases in the sample where failure to respond to the action points within the deadline was taken into account in the quality assessment of the data submitted, even though they sometimes cover important issues which could have an impact on the data.

31 Statistical capacity issues (institutional arrangements and data sources, status of inventory); follow-up of previous dialogue visits; follow-up of the latest reporting – analysis of EDP tables and the related questionnaires; methodological issues and recording of specific government transactions (delimitation of general government, application of 50 % rule in national accounts, implementation of accrual principle, and recording of specific government transactions) other issues (planned future operations, transmission of GFS data, etc.).

Figure 6

Time taken to publish visit reports (in weeks)



Source: ECA, based on Eurostat information.

Guidance

57
To ensure a harmonised approach, Eurostat provides methodological guidance to Member States on how specific issues of general government should be recorded. Guidance may be triggered in one of two ways:

(a) Member States may ask Eurostat for advice on complex issues.

(b) During its quality assessment work Eurostat may come across methodological issues requiring interpretation. If these issues concern multiple Member States it sets up a taskforce or organises expert consultation of the Committee on Monetary, Financial and Balance of Payments Statistics.

58
Eurostat provides bilateral guidance at service level if so requested by a Member State. On particularly complex issues, it also sometimes takes the initiative to provide guidance. Although binding, however, bilateral guidance is not always reported to the EFC and not always made public due to the Member States' desire for confidentiality. Guidance provided to three of the six Member States (in the form of ex-ante/ex-post advice) was neither reported to the EFC nor published on the Eurostat website. In 2014 and 2015, Eurostat received 36 formal requests for ex-ante/ex-post advice, of which only 23 were made public. The publication of such guidance could help with the sharing of practices among Member States and improve comparability and transparency.

… and key aspects of the assessment process need further clarification.

59
Some key aspects of the assessment process are unclear, for example the identification of one-off and temporary measures and the quantification of their estimated impact. These measures may make the difference when deciding whether or not to place a Member State under an EDP, or whether to extend the deadline for correcting an excessive deficit situation (see also paragraph 80).

60
The definition of such measures is vague and therefore open to interpretation. They are defined as 'measures having a transitory budgetary effect that does not lead to a sustained change in the inter-temporal budgetary position'[32], or 'non-recurrent measures whose impact on the general government balance is concentrated in one or a very limited number of years'[33], but there is no detailed methodology for identifying them. The indicative list in ***Box 4*** is taken from the 'Public finances in EMU 2006' report and gives some examples of measures considered to be one-off and temporary.

32 Code of Conduct.

33 'Public finances in EMU 2006', Part II, section 4.2. The report was issued as *European Economy* No 3/2006.

Box 4

Public Finances in EMU 2006 (extract)

Deficit-reducing measures

Tax amnesties implying a one-off tax payment. The typical case is that of a government offering an amnesty in order to repatriate capital from abroad. The amnesty may be subject to a one-off tax payment, which can potentially be large.

Sales of non-financial assets (real estate, publicly owned licenses and concessions). The most famous example is the sale of UMTS licences in 2000 (and in some countries in subsequent years).

Temporary legislative changes in the timing of outlays or revenues with a positive impact on the general government balance. This includes changes in tax rates that are clearly announced as temporary and temporary changes in the timing of expenditure and collection of revenues.

Exceptional revenues linked to the transfer of pension obligations. These revenues correspond to the payment by a given company to the government, in exchange for the transfer of the responsibility for the future payment of pensions of its employees. The magnitude of the one-off payment depends on the value of the pension commitments assumed by government and is potentially important.

Changes in revenues or expenditure consecutive to Court or other authorities rulings. Such measures include for instance reimbursements of subsidies to general government decided by the Commission.

Securitisation operations with a positive impact on the general government balance.

Exceptional revenues from State owned companies.

Deficit-increasing measures

Short-term emergency costs associated with major natural catastrophes or other exceptional events (e.g. military actions, others). Experience shows that the exceptionality of these costs depends considerably on the size of the country.

Changes in revenues or expenditure consecutive to Court rulings or consecutive to Commission decisions.

61
Another key aspect requiring clarification is the issue of 'unexpected adverse economic events with major unfavourable consequences for government finances' (see paragraph 24). Although a definition of 'major unfavourable consequences for government finances' exists for internal purposes, the concept of 'unexpected adverse economic events' has never been defined[34].

62
While it is not possible to exhaustively define the set of individual country circumstances to which the concept may apply, given particularly that such events are by nature unanticipated, criteria are needed with a view to providing some guidance. Faced with the lack of a definition and guidance, when looking at France in 2013 the Commission classified unexpectedly low economic growth as an 'unexpected adverse event', but it is difficult to see how this can be justified.

Data quality assessments and economic analyses lack transparency; analyses carried out according to the rules, but focused more on government deficit than on debt

63
This section considers the transparency, objectivity and practicability of the Commission's reservations and recommendations.

The criteria for Eurostat's reservations and amendments to data are not sufficiently transparent and objective

64
Eurostat may express reservations or make amendments if it judges that data quality is compromised. During the period 2008-2014, Eurostat set twelve reservations and amended data in ten cases, none of which concerned any of the Member States examined by us. Considering the large number of action points, Eurostat sets reservations rather infrequently.

34 According to the internal version of the DG Economic and Financial Affairs Vademecum on the SGP.

65

Eurostat has not explicitly laid down criteria for setting reservations or amending Member States' data, and the procedure is based on professional judgement. In some cases where Eurostat identified methodological problems, the reasons for not expressing a reservation were not well documented, including the potential impact on the deficit and debt data. ***Box 5*** describes some of the cases concerned.

Box 5

Some examples of cases with a potential impact on the deficit and debt data that were not well documented

Czech Republic

- application of the market/non-market test was infrequent and a large number of public units (corporations) were not tested.

France

- amount received by a government unit for assuming the costs of decommissioning nuclear facilities (1.6 billion (0.1 % of GDP) for 2004).
- incompleteness of the local government sector.

Germany

- non-market units are not classified in the general government sector from the first year of their non-market status.
- unavailability of detailed data for the analysis of capital injections, financial derivatives and distributions.

Malta

- classification of Malita and City Gate project.

Italy

- recording of gross fixed capital formation is not made on an accrual basis for large investment amounts.

For more details see ***Annex IV***.

DG Economic and Financial Affairs analyses are carried out as required by the rules…

66

When an EDP is launched, DG Economic and Financial Affairs produces analyses, which are used as the basis for subsequent EDP decisions, and issues recommendations. Where a procedure is ongoing, it does this following its regular assessments of effective action (see paragraph 22). The results of these analyses are presented, for new procedures, in the report required by Article 126(3) TFEU or, for ongoing procedures, in an internal Commission working document.

67

An EDP will be triggered, in line with the provisions of the TFEU[35], by the Commission's examination of Member State compliance with budgetary discipline on the basis of the deficit and debt criteria. To this end, DG Economic and Financial Affairs monitors the development of the budgetary situation and of the stock of government debt in each Member State on the basis of actual data, the plans outlined in the Member State's stability or convergence programme, and the Commission's forecasts. A breach of the thresholds laid down in Protocol No 12 to the TFEU does not automatically trigger an EDP, since other relevant factors need to be taken into account. These consist of an open-ended list of economic indicators grouped under the headings of medium-term economic, budgetary and government debt positions[36], as well as any other factors considered relevant and put forward by the Member State. The Article 126(3) reports reviewed covered all the topics mentioned above.

… however, the EDP has so far focused more on government deficit than on debt.

68

The debt criterion only became operational in 2012, is still being phased in and will not apply to all Member States until at least 2020. EDPs initiated before November 2011 are to be abrogated on the basis of the deficit criterion only, and this will be followed by a three-year transitional arrangement for debt. ***Box 6*** shows how the debt criterion has evolved since the Maastricht Treaty.

35 Article 126(2).

36 For a full list see Article 2(3) of Regulation (EC) No 1467/97.

Box 6

Evolution of the debt criterion

Protocol No 12 to the Treaty on European Union, signed in Maastricht in 1992, set a threshold level, for the public deficit, of 3 % of GDP and, for debt, of 60 % of GDP or a ratio that is 'sufficiently diminishing and approaching the reference value at a satisfactory pace'.

Assuming a 5 % annual nominal GDP growth rate, a deficit of 3 % of GDP will eventually stabilise the debt-to-GDP ratio at 60 %. If the ratio is above 60 %, a 3 % deficit will induce an annual reduction in the debt ratio of one twentieth of the differential with respect to the reference value of 60 %. In other words, focusing on the deficit was deemed sufficient to ensure the steady reduction of debt, and for many years it was felt unnecessary to define more precisely the pace of convergence with the reference value.

Since the 2008 crisis, the 5 % assumption for annual nominal GDP growth has clearly been unrealistic (see ***Annex V***). Hence a deficit of 3 % of GDP no longer automatically implies convergence towards a debt-to-GDP ratio of 60 % (for example, at an annual nominal growth rate of 3 % and a 3 % deficit, the debt-to-GDP ratio will stabilise at 100 %). For this reason the debt criterion was adjusted.

A more precise definition emerged in Article 1(2)(b) of Council Regulation (EU) No 1177/2011 of 8 November 2011: 'the [debt-to-GDP ratio] shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace […] if the differential with respect to the reference value has decreased over the previous three years at an average rate of one twentieth per year as a benchmark […]'.

However, the 23 Member States already under an EDP in November 2011 are subject to a transitional rule for a period of three years after abrogation of the respective EDP. As a result, the new debt criterion will not apply universally to all Member States before at least 2020 (see also ***Table 1***).

69
The rule since 2011 has been that the government debt-to-GDP ratio complies with the debt criterion if it does not exceed the reference value (60 % of GDP), or if the differential with respect to the reference value decreases over three years at an average rate of one twentieth per year, on a backward, forward-looking or cyclically adjusted basis.

70
The acceptable pace of reduction in the debt-to-GDP ratio is approximately that which would apply, regardless of the initial level of debt, given a public deficit of 3 % of GDP and annual nominal growth of 5 %. As nominal growth has consistently been below 5 % since 2008, to meet the debt benchmark the public deficit must be brought below 3 % of GDP – and when higher levels of initial debt are factored in the deficit target will be more demanding still. This makes the convergence requirements particularly challenging for heavily-indebted Member States.

71

In ***Table 4*** we use the Commission data and projection[37] for the debt-to-GDP ratio from 2013 to 2020 to calculate the annual ratio resulting from compliance with the debt benchmark for five countries in our sample[38]. Only Germany and Malta, where debt hovers around 70 % of GDP, are shown as meeting the debt criterion over the period under consideration. Cyprus, which was placed under a programme of financial assistance in April 2013, is forecast to be compliant with the debt benchmark in 2018. France, which was placed under an EDP in April 2009 and is expected to exit the procedure by the end of 2017, should be compliant with the debt criterion at the end of a three-year transitional period starting at the abrogation of the EDP (i.e.in 2020). However, with a debt-to-GDP ratio of 96.5 % in 2015, France is not expected to fulfil the debt criterion by 2020. As with France, for all years in the period the Commission also projects that Italy's debt-to-GDP ratio will exceed the maximum acceptable for compliance with the benchmark. Assuming the scenario projected by the Commission, therefore, Italy, which had a debt-to-GDP ratio of 133.0 % in 2015, will be unable to comply with the debt benchmark by the forecast horizon of 2020 – and is thus *prima facie* in breach of the debt criterion.

37 Data for Germany, Italy, France and Malta taken from the Commission's Fiscal Sustainability Report 2015, baseline scenario. The Commission does not include data for Cyprus as it is a country under a financial assistance programme. So data for Cyprus taken from the IMF Article IV Report on Cyprus (IMF Country Report No 14/313 – October 2014).

38 With the exception of the Czech Republic, where the debt-to-GDP ratio is below the 60 % threshold.

Table 4

Evolution of debt under Commission baseline scenario versus debt benchmark (all figures %)

		2013	2014	2015	2016	2017	2018	2019	2020
GERMANY	debt-to-GDP (EC)	77.4	74.9	71.4	68.5	65.6	63.0	60.6	58.2
	debt-to-GDP (benchmark)				73.1	70.4	67.6	65.1	62.7
FRANCE	debt-to-GDP (EC)	92.3	95.6	96.5	97.1	97.4	97.8	97.8	97.4
	debt-to-GDP (benchmark)				91.5	92.9	93.4	93.8	94.0
ITALY	debt-to-GDP (EC)	128.8	132.3	133.0	132.2	130.0	128.2	126.0	123.5
	debt-to-GDP (benchmark)				124.5	125.5	124.7	123.3	121.4
CYPRUS	debt-to-GDP (EC)	111.5	117.4	126.0	122.5	116.4	111.1	106.5	102.6
	debt-to-GDP (benchmark)				112.9	116.1	115.5	111.0	106.2
MALTA	debt-to-GDP (EC)	69.6	68.3	65.9	63.2	61.0	59.2	58.1	57.4
	debt-to-GDP (benchmark)				67.1	65.2	63.0	61.0	59.4

Source: ECA simulation based on EC data – the cells highlighted in yellow indicate that for that year the Member State is forecast to comply with the debt benchmark.

Analyses by the Commission are difficult to follow…

72

The number of relevant factors (see paragraph 14(ii) that the Commission can take into account in its analysis is potentially unlimited. Since, moreover, there is no methodological framework in place to weigh the impact of those factors in the assessment, all conclusions are left to the Commission's economic judgement. Although certain cases may require a more qualitative approach based on expert knowledge, it is difficult to understand how the Commission's capacity for economic judgement applies to other factors.

73

In four of the nine Article 126(3) reports examined, the Commission concluded that the relevant factors present or seem to present a 'mixed picture'[39], and in three other reports it concluded that the relevant factors seem to present a favourable, or relatively favourable, situation[40]. However, the reasoning behind these conclusions is unclear, as is the impact of this analysis on the final decision whether or not to place a Member State under an EDP or extend the EDP deadline.

… without access to all the data used it is not possible to replicate the underlying calculations, …

74

Information on the data used by the Commission in its calculations was often not easily accessible. This finding was corroborated by the representatives of the national authorities of some of the Member States visited.

75

In the case of revised recommendations, for example, the information in the Commission's relevant staff working document was not sufficient to replicate the calculation of the fiscal effort and other variables that are essential for the assessment of Member States' compliance with the original recommendations. In this regard, the working document underlying the Commission's recommendation to extend the EDP deadline for France in February 2015 did not contain data in support of the baseline scenario[41] or any detail of additional discretionary revenue measures, although these data are essential to replicate the assessment of effective action which led to the extension.

39 Czech Republic (7.10.2009), Italy (7.10.2009), Cyprus (12.5.2010), Malta (13.5.2009).

40 Germany (7.10.2009), France (18.2.2009), Malta (18.2.2009).

41 The baseline scenario was based on the 2013 spring forecast underlying the 2013 EDP recommendations.

… and decisions are not always based on sufficiently objective arguments.

76
We reviewed the Commission analyses underlying the Council's EDP decisions and recommendations in respect of the Member States in the sample. The legal framework governing the issue of EDP decisions and recommendations provides room for a relatively high degree of flexibility of interpretation and application. This is true for the assessment of the Italian budgetary situation in the Article 126(3) report of 27.2.2015, which concluded that the debt criterion should be considered satisfied. ***Box 7*** summarises our analysis of the case.

Box 7

Compliance with the debt criterion – Italy

Italy was placed under an EDP in November 2009. The procedure was lifted in May 2013. Since then, Italy has been required to comply with the three-year transitional rule for the debt criterion. In February 2015 the Commission carried out an assessment and concluded that the Member State was *prima facie* in breach of the debt criterion.

However, after taking account of the relevant factors, and in spite of the fact that the debt-to-GDP ratio was still increasing, the Commission assessed Italy to be compliant with the debt criterion. The decision cited three main relevant factors:

(i) The currently unfavourable economic situation, characterised by very low inflation, which make compliance with the debt rule particularly demanding.

Our analysis: the debt adjustment benchmark already takes into account the influence of the economic cycle on the pace of debt reduction. Rules for doing so are set out in a note addressed to the Economic and Financial Committee alternates entitled 'Operationalising the debt criterion in the Excessive Deficit Procedure'. This document makes it clear that the adjustment of debt for the cycle also factors in the evolution of prices, which is captured by the GDP price deflator.

(ii) Adherence to the medium-term budgetary objective (MTO) or the path of adjustment towards it. According to DG Economic and Financial Affairs, strict compliance or convergence with the MTO implies, under normal macroeconomic circumstances, compliance with the debt criterion in the medium term and debt sustainability.

Our analysis: based on the 2015 winter EEF, Italy complied with the MTO in 2014 (in the sense that, its economy being in recession, it was not required to make any adjustment towards the MTO – the structural balance actually deteriorated by 0.2 %) and was forecast to comply in 2015. However, although the 2015 winter EEF also covers 2016, the assessment only takes account of 2014 and 2015. According to the Commission's forecast Italy will not be in line with the path of adjustment to the MTO in 2016 (forecast structural effort -0.2 % instead of the +0.5 % required). Hence, Italy was not forecast to meet the condition of 'strictly respecting the required adjustment towards the MTO'.

Box 7

(iii) Structural reforms: in a January 2015 communication[42], the Commission clarified that the relevant factors to be taken into account when deciding not to launch an EDP include major structural reforms having direct long-term positive budgetary effects and planned in sufficient detail by the Member State. In DG Economic and Financial Affairs's view, Italy had made progress with the implementation of an extensive reform agenda with measures 'expected to have a positive impact on growth and therefore on the sustainability of public finance'.

Our analysis: the communication does not quantify the terms 'major positive impact on growth' and 'long-term positive budgetary impact'. Italy itself did quantify the expected impact of reforms on growth, but not the long-term budgetary impact. In addition, the Commission did not share some of the assumptions underlying Italy's estimate of a positive impact on growth, merely stating that 'these results have not been endorsed by any national independent institution and seem to over-estimate the impact of the reforms'. Finally, there is no methodological framework in place that explains how the budgetary cost of reforms should be estimated and factored into the assessment of compliance with the debt criterion.

42 COM(2015) 12 final of 13 January 2015 'Making the best use of the flexibility within the existing rules of the Stability and Growth Pact'.

77

We focused on Italy because, of the Member States in the sample, it was the only one where an EDP was not launched even though the country failed to meet the debt benchmark; the decision was shaped by considerations drawn from the analysis of other relevant factors. Of the five other Member States, the Czech Republic's debt-to-GDP ratio is below the threshold, and Germany is currently meeting the debt benchmark. Malta was under an EDP from 2013, when it missed the debt requirement, until 2015, when it too became compliant for both deficit and debt. The rules regarding surveillance are different for Cyprus, since it was placed under a financial assistance programme in 2013. Finally, in the case of France, which has been under an EDP since 2009, according to Regulation EC No 1467/97 the debt criterion will only apply when the Member State exits the EDP, i.e. not before 2018.

78

In the case of Italy, the Commission took advantage of the option of invoking relevant factors in order to avoid applying the EDP to a Member State which would be highly unlikely to comply with the debt benchmark. In other words, rather than addressing the root causes that made compliance with the benchmark very demanding (because, for example, it does not take account of the initial level of debt), the Commission put off the problem by emphasising relevant factors which made strict compliance with the benchmark a matter of secondary importance.

79

For three of the six Member States in the sample the EDP deadline was extended and revised recommendations were issued (see ***Table 5***).

Table 5 Revised recommendations

<table>
<tr><th></th><th colspan="3">Original recommendations</th><th colspan="6">Revised recommendations</th></tr>
<tr><th></th><th>Date</th><th>Deadline</th><th>Average annual fiscal effort</th><th>Commission assessment date</th><th>Date of recommendation</th><th>Extension</th><th>Deadline</th><th>Average annual fiscal effort</th></tr>
<tr><td rowspan="3">France</td><td rowspan="3">April 2009</td><td rowspan="3">2012</td><td rowspan="3">At least 1 % of GDP starting in 2010</td><td>November 2009</td><td>November 2009</td><td>1 year</td><td>2013</td><td>Above 1 % of GDP over the period 2010-2013</td></tr>
<tr><td>May 2013</td><td>June 2013</td><td>2 years</td><td>2015</td><td>1.3 % of GDP in 2013, 0.8 % of GDP in 2014, 0.8 % of GDP in 2015</td></tr>
<tr><td>February 2015</td><td>March 2015</td><td>2 years</td><td>2017 at the latest</td><td>0.5 % of GDP in 2015, 0.8 % of GDP in 2016, 0.9 % of GDP in 2017</td></tr>
<tr><td>Cyprus</td><td>July 2010</td><td>2012</td><td>At least 1.5 % of GDP over the period 2011-2012</td><td>May 2013</td><td>May 2013</td><td>4 years</td><td>2016</td><td>Not specified</td></tr>
<tr><td>Malta</td><td>July 2009</td><td>2010</td><td>Not specified</td><td>February 2010</td><td>February 2010</td><td>1 year</td><td>2011</td><td>0.75 % of GDP in 2011</td></tr>
</table>

Source: ECA.

80

We consider that the analysis underlying the March 2015 extension of the French EDP, based on 2015 winter forecast, was not fully transparent. In particular, the revised recommendation was based on a bottom-up assessment which stated that, 'overall the available evidence does not allow concluding that the recommended effort has not been delivered in 2013 – 2014'[43]. This despite the fact that the calculation of structural effort included the effects of a discretionary revenue measure[44] which, being temporary (financial impact from 2014 to 2016), should not have been taken into account. The measure in question was worth 0.1 % of GDP. Without it the structural effort would have fallen short of the 1.1 % needed to justify extension of the EDP deadline.

81

Moreover, the Commission regarded France as compliant in retrospect and invoked compliance to justify extending the deadline so as to bring the deficit below the threshold at a more relaxed pace. However, this assessment was based only on 2013 and 2014 data. The forecasts available for 2015, which showed that France was going to miss its targets, were not taken into account in the Commission's assessment (see ***Annex VI***).

82

According to the Vademecum on the SGP, the assessment of effective action should be brought forward if there is a risk that the outturn data at the expiry of the deadline will show that the headline deficit target has been missed. The purpose of this recommendation is to prevent any conflict between Article 10(3) of Regulation EC No 1467/97, which requires the EDP to be stepped up immediately if, according to the outturn data, the headline target is missed, and Article 3(5) of the same regulation, which allows for an extension of the deadline on the basis that effective action was taken (i.e. the Member State achieved the required fiscal effort as assessed using top-down and/or bottom-up indicators). However, according to the information available at the time of the assessment France was not on course to meet any nominal or structural indicators by the end-2015 deadline. Rather than extending the deadline, therefore, the Commission should have either issued an early warning (through an autonomous recommendation) or stepped up the procedure.

43 SWD(2015) 19 final of 27 February 2015, p. 18.

44 Increase from 5 % to 10.7 % in the rate of the exceptional contribution on corporate income tax ('*Contribution exceptionnelle sur l'impôt sur les societés*'). The measure was introduced on 29 December 2013 and is due to expire on 30 December 2016.

83
The Commission made use of the high degree of flexibility and discretion afforded by the SGP rules in its assessments of Italy and France.

Moreover, there were unexplained differences between the EDP decisions and recommendations adopted by the Council and those proposed by the Commission

84
We compared EDP decisions and recommendations in the version finally adopted by the Council with those proposed by the Commission, and found a number of differences for which the available records did not give underlying reasons. For example, in the case of Cyprus (06/07/2010) the Commission recommended 1.75 % of GDP over the period 2010-2012. This was changed in the Council's recommendation to 1.5 % of GDP over the period 2011-2012. For the most relevant discrepancies see ***Annex VII***.

EDP corrective and surveillance actions: reporting by Member States, monitoring and surveillance by the Commission

Member States' reporting on corrective action could be improved

Member States' reporting on EDP corrective action does not provide a sufficiently wide and solid basis for the Commission to implement its monitoring and surveillance tasks

85

The 'Six-pack' and the 'Two-pack' introduced new reporting requirements with the aim of enhancing surveillance of the EDP (see ***Figure 7***). However, there is no statutory arrangement for ensuring that Member States comply with these reporting requirements. As a consequence, the Commission does not take any action against Member States which fail to provide the required information. Furthermore, our analysis showed that the Commission did not bring this issue to the attention of the European Parliament and the Council in its November 2014 review of economic governance and the application of the 'Six-Pack' and 'Two-Pack'. The Member States in our sample that are subject to the new reporting requirements[45] have not always complied with them (see ***Figure 8*** for examples).

Figure 7

New reporting requirements introduced by the 'Six-Pack' and the 'Two-Pack'

Source: ECA.

45 France and Malta.

Figure 8

Examples of Member States' non-compliance with reporting obligations

In october 2013, *France* was required to submit three EDP documents:

Document to be sent by France in 2013	Finding
(i) In-year budgetary execution report	France did not send this document to the Commission.
(ii) Report on action taken (iii) Economic partnership programme	France submitted an extract from its 2014 draft budget, which was meant to replace the report on action taken and the economic partnership programme. However, the extract is not consistent with the required format and content for an economic partnership programme; nor does it disclose sufficient information on corrective measures for the latter years of the period, as is required for the report on action taken.

In october 2014, *France* and *Malta* were required to send the following reports:

Document to be submitted in 2014	Finding
France: **two in-year budgetary execution reports**	France did not submit the documents.
France: **report on measures adopted**	The Commission required France only to report on measures adopted in its forthcoming stability programme (for 2014) and not, as stipulated by Regulation (EU) No 473/2013, in a report on measures adopted. The Member State did provide some information in its 2014 stability programme, but this was not as detailed as required by the Regulation.
Malta: **two in-year budgetary execution reports**	Malta sent both documents, but the reports did not provide the required data on the in-year budgetary impact of discretionary measures for the year 2014.

Source: ECA.

86

With the exception of Cyprus (after it agreed to a financial assistance programme in 2013), corrective measures were not sufficiently detailed and/or their fiscal impact was not sufficiently clearly identified or explained (see ***Box 8***) for the Commission to exercise effective supervision.

87

Moreover, the deadlines set for the production of European economic forecasts are not aligned with national budgetary deadlines. This results in frequent discrepancies between the Commission forecasts and national budget forecasts, and consequently between budgetary targets and the required EDP adjustment paths.

Box 8

Examples of insufficient detail on corrective measures

- The **Czech** national reform programme (2012) contained a list of measures, both planned and implemented, as well as implemented measures with an expected financial impact in 2013 and 2014. However, the programme did not include any estimate of the fiscal impact of these measures.
- The **Czech** convergence programme (2012) included a table specifying the fiscal impact of measures envisaged for 2013-2015. However, the data in the text could not be reconciled with the information in the table. Moreover, in one case there were no details on the corrective measures proposed.
- The **Maltese** report on action taken (2013) specified corrective measures for 2013 but was vague about 2014. Instead of giving details, the report merely referred to the forthcoming budget. Therefore the Commission's assessment[46] did not incorporate the planned measures (they were not included until the winter forecast), which weakened the basis for effective monitoring and surveillance.
- The **French** stability programmes for 2010 to 2014 did not describe the corrective measures for every year in the requisite detail[47]. As a consequence, the Commission did not have a sufficient basis for effective supervision or decision-making.

46 Published on 5 November 2013 and based on the autumn forecast.

47 Each successive stability programme covers three years. France systematically gave full details for the first year, but not for the second or the third.

Monitoring and surveillance by the Commission is subject to increasingly complex rules, lacks transparency and provides a limited assessment of the effect of structural reforms

88

This section describes the rules and procedure for assessing effective action, examines the quality of the Commission's assessments and considers the impact of recent changes.

89

The rules for assessing effective action have evolved as a result of:

(i) the SGP reforms in 2005 and 2011, which complemented the initial deficit benchmark (3 % - SGP 1997) with a top-down approach based on the structural balance; and

(ii) additional interpretative guidance, endorsed by the Council in 2014, including a bottom-up assessment methodology.

90

Compliance with the EDP recommendations is checked by assessing whether, on the basis of the actual data and Commission forecasts, the Member State meets the annual deficit targets. If the Member State fails to do so, an assessment of effective action is carried out using the top-down and bottom-up approaches (see ***Box 9***).

Box 9

Assessment of effective action

Top-down approach

If the annual deficit targets are not reached, the top-down approach is used to assess whether the Member State achieved the improvement in the structural balance (‘recommended fiscal effort’ R) required in the EDP recommendations.

This is done by comparing R with the observed or forecast change in the structural balance (‘observed fiscal effort’ ΔS) and with the change in the structural balance adjusted for the impact of (a) revisions in potential output growth, (b) revisions in the composition of the economic growth or other windfalls/shortfalls on revenues, and (c) other unexpected events (‘adjusted fiscal effort’ ΔS*).

If both ΔS and ΔS* are equal to or greater than R, the Member State is considered to have taken effective action and the EDP is held in abeyance. In all other cases, the assessment needs to be confirmed by a careful analysis, which is carried out using the top-down and bottom-up approaches.

Bottom-up approach

The bottom-up approach aims at assessing the fiscal effort by providing a direct estimate of the budgetary impact of new fiscal measures implemented by the Member State since the EDP recommendation was issued, or since compliance with the EDP recommendation was last assessed.

The fiscal effort is calculated as the sum of (a) the estimated budgetary impact of additional discretionary revenue measures and (b) the change in nominal expenditure compared to a baseline scenario which the Commission projected earlier on the assumption of no policy change.

The rules for assessing effective action have become increasingly complex

91
Introduction of the top-down and bottom-up approaches has made the rules for assessing effective action more complex.

92
Top-down approach: the structural effort depends on an estimate of the output gap, which is understood as the difference between actual and potential output. Potential output is defined as the maximum level of output that can be obtained without generating inflationary pressure. It is an unobservable variable and estimating it is fraught with uncertainty (see ***Box 10***).

Box 10

Potential output

Since the 2005 reform, potential output has played a crucial role in the EDP. This theoretical concept is unobservable, even in retrospect, and has to be estimated.

There are various methods of estimating potential output. Despite the view of experts that 'there is significant uncertainty around any estimate of the output gap' and the fact that 'it would be unwise to base an assessment of economic prospects on any single approach alone'[48], the ECOFIN Council did adopt such a single approach: the production function methodology.

This methodology uses a pre-defined functional form for the production function and estimates potential output by combining, after removing their cyclical component, the capital stock, the labour force and the total productivity of factors. The same production function applies to all Member States: a Cobb-Douglas function with an output elasticity of labour equal to 0.65 and an output elasticity of capital equal to 0.35. These values were obtained using 'the mean wage share for the EU15 over the period 1960-2003 […] as the estimate for the output elasticity of labour, which gives a value of 0.63 […] and, by definition, 0.37 for the output elasticity of capital.' However, 'since these values are close to the conventional mean values of 0.65 and 0.35, the latter are imposed for all countries.'[49]

Revisions of potential output estimates are triggered by the adjustment of past data and the use of new data on output and expected output, but also by other technical issues and underlying hypotheses – such as expected changes in inflation.

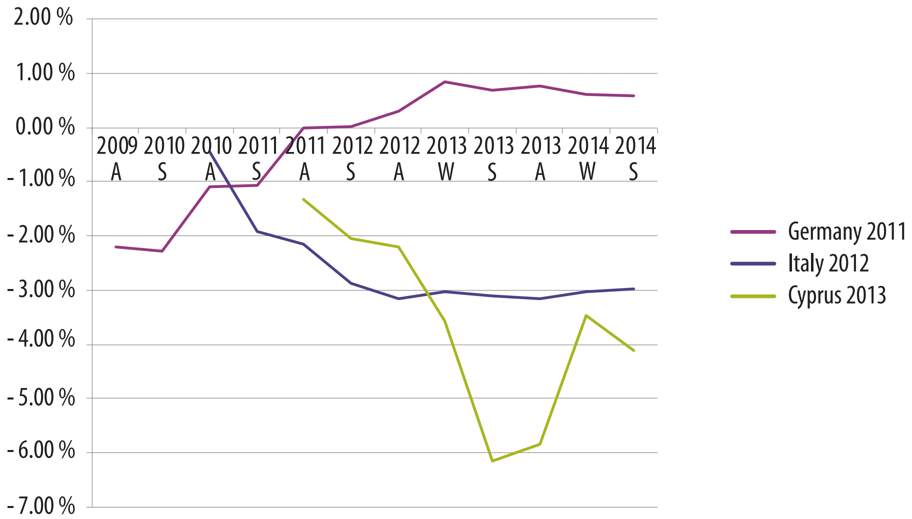
48 UK Office for Budget Responsibility (the UK's fiscal council), Briefing paper No 2 'Estimating the output gap', April 2011.

49 'The production function methodology for calculating potential output growth and output gaps', *Economic Papers* 535, November 2014.

93
This is why potential output estimates are subject to frequent and possibly significant revisions which may also affect past estimates. Actual output figures (both historical and forecast) may also be substantially revised. The result of all this is that the output gap is often revised and may fluctuate enormously – in some cases the magnitude of revision is greater than the previous estimate of the output gap itself. ***Figure 9*** illustrates this volatility. For example, the 2013 output gap in Cyprus was initially estimated in the 2011 forecast at -1.32 %; it fell to -6.16 % in the spring 2013 forecast and rose to -4.1 % in the spring 2014 forecast.

Figure 9

Examples of volatility of the output gap in Commission's forecasts



Note: A=autumn, S=spring, W=winter

Source: Commission's annual macroeconomic database (AMECO).

94
The bottom-up approach is also somewhat complex, owing mainly to the difficulty in defining the impact of revenue measures and to the 'no policy change' benchmark against which government actions will be assessed. The Commission's scrutiny/certification of the estimated budgetary impact of fiscal measures inevitably depends on information and figures provided by the national authorities. It is impossible for the Commission to adequately assess the accuracy of these figures with the resources it makes available for the task.

The Commission's analyses of the impact of fiscal measures lack transparency…

95
The increased complexity of the rules for assessing effective action has widened the Commission's scope for interpretation and discretion. As a result its analyses have become less transparent.

96
With regard to the top-down approach, it is not possible to recalculate the structural effort without access to certain key data which were not shared in full with the Member States until the 2015 spring forecast and have still not been made public (see paragraphs 74 and 75).

97
The Commission used the bottom-up approach for France in May 2013. This methodology enabled the Commission to judge that France had taken effective action and to extend its EDP deadline. However, the methodology was not endorsed by the Council until June 2014. In addition, the impact assessment of revenue measures is a projection, not an ex-post assessment, and therefore may be overly optimistic compared with the actual outcomes. Moreover, the impact of expenditure measures is assessed against a baseline identified by the Commission under the 'no policy change' assumption and is a matter for expert judgement.

98

The Commission has been making efforts to enhance transparency. In part since the 2014 spring forecast, and in full since the 2015 spring forecast, it has shared with Member States the information they need to replicate its effective action calculation. However, as most of this detailed information is not made public, an interested third party would not be able to replicate the assessment.

99

In common with the EDP reporting documents submitted by national authorities (see paragraph 86), the Commission assessments reviewed by us contained no detailed (measure-by-measure) or quantified ex-post assessment of the corrective measures implemented by Member States.

… and its conclusions are not always sufficiently clear or well-founded

100

Since the entry into force of the 'Six-pack', Member States placed under an EDP or granted an extension have been required to produce a report, within the following six months, on the corrective action taken (see ***Figure 7*** in paragraph 85). This concerned two Member States in the sample (Malta and France in October 2013). In both cases, we found that the conclusions of the Commission's assessment were based on incomplete data. In particular:

(i) the Commission pointed out that Malta (EDP deadline end of 2014) failed to meet the EDP requirements for 2014 in both nominal and structural terms, and that neither the report on action taken nor the draft budgetary plan provided sufficient detail about the discretionary measures underpinning the budgetary targets;

(ii) the Commission's top-down assessment showed that, in France (extended EDP deadline end of 2015), the structural effort was insufficient for both 2013 and 2014, but the adjusted structural effort was on target. In accordance with the rules, a bottom-up analysis was also carried out to confirm whether the Member State had taken effective action. However, the second analysis showed that for both years the structural effort fell short of the Council recommendations (i.e. the budgetary impact of new discretionary measures was insufficient). As for 2015, the last year of the EDP period, the Commission warned that 'a significant set of measures on top of those already specified will be needed to ensure that the target for 2015 is reached'. As a matter of fact, France missed that target.

Notwithstanding these comments on both Malta and France, the Commission's conclusion for both reports on action taken was that the Member State 'has taken effective action and no further steps in the procedure are needed at present'.

101

The Commission argued that the assessment of the report on action taken is retrospective. However, this is not in line with the rules set out in the Vademecum on the SGP (paragraph 232 '…the Commission examines [the Member State's report on action taken] to see whether the Member State has complied with the Article 126(7) recommendations. This is done by assessing whether the Member State is forecast to meet all the nominal targets, according to the Commission forecasts'), and it also means that setting unambitious targets for the first year of an EDP (when the report falls due) could turn the assessment of the report on action taken into a mere formality that provides no added value. In this respect we note, for example, that the Council recommendations issued in June 2013 required France that year to achieve a headline deficit equal to the forecast made for 2013 in the EEF underlying the EDP recommendations, and required only those discretionary measures which the Member State had already approved in its most recent budget at that time. Lastly, the requisite structural effort was simply derived from the headline budget target.

102

The assessment of effective action should allow the procedure to be stepped up if the Member State is missing, or is forecast to miss, all the targets (headline deficit, structural effort, adjusted structural effort and bottom-up targets). However, we found that this was not the case with the ongoing assessments ('regular monitoring') that were made of France[50] on the occasion of the 2014 spring and autumn forecasts: although France was missing all its targets, the procedure was not stepped up (see ***Annex VI***).

103

Our analysis of the assessment that the Commission carries out at the expiry of the deadline for revised recommendations (Malta in 2010 and France in 2009, 2013 and 2015) is given in paragraphs 79 et seq.

50 As can be seen from ***Annex VI***, France is the only Member State in the sample to which this weakness in the ongoing assessment applies.

104
On the issue of debt, we found in general that, even after the application of the debt criterion, the analysis of the dynamics of the debt ratio is inconclusive for Member States under an EDP that was already in place in November 2011. The analysis broadly describes historical and forecast trends in the debt-to-GDP ratio, and warns that Member States' projections might underestimate the debt growth rate and that measures planned in their stability programmes could be insufficient to bring the debt-to-GDP ratio down. However, the conclusions do not even question whether or not the debt criterion was breached. The Commission pointed out that any such conclusion would only become relevant after the abrogation of the EDP. In this respect we also note that, according to the internal version of the Vademecum on SGP, EDPs that were open in November 2011 are to be abrogated on the basis of the deficit criterion only.

Nevertheless, the introduction of annual fiscal targets in EDP recommendations from 2011 onwards provides a clear benchmark for the ongoing assessment of effective action in multiannual EDPs

105
In principle, an EDP should be closed by the end of the year following that in which it was opened. The targets set by EDP recommendations therefore have an annual horizon.

106
However, in 2009 several EDPs were launched with a multiannual deadline. A general government deficit target was set for the period as a whole, with, to this end, a fiscal effort averaged over the period (see ***Annex VI***, yellow cells). The drawback was that this allowed Member States to postpone most corrective action until the last year of the period. At that point, the sheer magnitude of the corrections needed made them unrealistic and forced the Council to extend the deadline.

107
To remedy this weakness, since 2011 EDP recommendations have included annual fiscal targets for these multiannual EDPs in both nominal and structural terms, thus restoring the annual benchmark for assessing corrective action as was the case before 2009.

Structural reforms are now also taken into account in the overall assessment of EDP action taken…

108

Excessive public deficits may be rooted – at least in part – in structural weaknesses. Structural reforms address those weaknesses and remove obstacles to the fundamental drivers of growth by, for example, liberalising labour, product and service markets, which in turn encourages job creation and investment and improves productivity. Thus structural reforms may improve competitiveness, boost growth and, in the medium and long term, contribute to a lasting correction of the deficit.

109

Since May 2013 the Commission has also taken structural reforms into account in the overall assessment of EDP action. It does this by assessing economic partnership programmes (EPPs). Since the entry into force of the 'Two-pack', euro-area Member States under an EDP have been required, together with their reports on action taken, to submit EPPs, which are a sort of road map of planned structural reforms. Moreover, since February 2015 the Commission has regarded structural reforms planned in sufficient detail as a relevant factor for not launching an EDP or for granting a multiannual deadline[51].

… although the analyses carried out in this regard are still limited and do not take sufficient account of the importance of structural reforms in the context of the EDP.

110

EPP assessments are a one-off exercise, and the Commission does not systematically follow up the weaknesses identified. For example, in its opinion on the EPP submitted by Malta in October 2013 the Council concluded that all reforms were a work in progress and that implementation remained subject to risks. In addition, some country-specific recommendations had not yet been fully addressed. It therefore invited Malta to provide additional information on the implementation of the planned reforms in the upcoming national reform programme and stability programme, while considering additional measures to ensure long-term public finance sustainability. However, although Malta failed to address all the aspects of the Council's Opinion in respect of a number of reforms, the Commission did not mention the missing details in its assessment of the relevant national reform programme.

51 COM(2015) 12 final.

111

With the exception of Member States under a financial assistance programme (e.g. Cyprus), follow-up of the implementation of structural reforms by Member States under an EDP is done only in the context of the European Semester (monitoring of the implementation of country-specific recommendations) and is no stricter than that carried out in respect of other Member States.

112

Moreover, the monitoring of country-specific recommendations does not always extend to the actual implementation of reforms or to assessing their effectiveness. It mainly focuses on the steps taken to put the proposed measures into law (see ***Box 11***). We consider that weak monitoring could compromise the impact of the Commission's recent decision to take greater account of the implementation of structural reforms.

Box 11

The Commission's assessment of structural reforms implemented by Italy

By way of illustration of the Commission's approach to the assessment of structural reforms, reference is made to three reforms regarded as priorities by both Italy and the Commission:

- **Spending review**: in their 2013 and 2014 national reform programmes the Italian authorities highlighted the appointment of a commissioner to oversee the spending review. However, the commissioner appointed in October 2013 resigned in October 2014 (two years before the end of his mandate) after putting forward a spending review plan. The Commission in its assessment (COM (2015)113 final) only noted that 'in the context of the spending review a choice for more political ownership has been made but only some instruments are fully operational'. It did not assess Italy's progress (or lack of it) in implementing the commissioner's proposals. A new spending review commissioner was appointed only five months later.
- **Tackling corruption**: DG Economic and Financial Affairs's assessment of the anti-corruption authority failed to detect any weaknesses undermining its effectiveness. These weaknesses only came to light in June 2014 after a report by DG Migration and Home Affairs had identified several issues (February 2014) and a major corruption scandal broke in Italy (EXPO 2015 in Milan in April 2014). Two other major corruption cases emerged later the same year (the Mose project in Venice in June, Mafia Capitale in Rome in December).
- **Tackling tax evasion**: in its assessment the Commission did not examine the figures disclosed by Italy as the outcome of measures implemented under this heading in the stability and national reform programmes.

Outcome of the EDP

EDP reforms have introduced tools for enhancing budgetary discipline, but the EDP has not proved fully effective as a corrective mechanism

113

This section summarises what has been done to further improve budgetary discipline and examines the effectiveness of the EDP as a corrective and structural reform mechanism.

Successive EDP reforms have introduced tools for enhancing budgetary discipline in the Member States…

114

Recent reforms to the EU fiscal framework (the 'Six-pack' in 2011 and 'Two-pack' in 2013 – see ***Figure 1***) were made with the aim of achieving and maintaining the soundness of public finances. In the context of the EDP, the reforms introduced complementary rules, an early-warning mechanism and a range of new monitoring and surveillance tools; they also strengthened sanctions and eased the conditions for imposing them.

… however, the EDP has not proved fully effective as a corrective mechanism.

115

The budget balance and debt-to-GDP ratio are the two Treaty indicators used to assess the budgetary position of a Member State (see paragraph 1). The 2005 reform of the SGP supplemented these by introducing the structural balance[52] as one of the targets that Member States under the EDP must achieve in order to correct an excessive deficit situation.

116

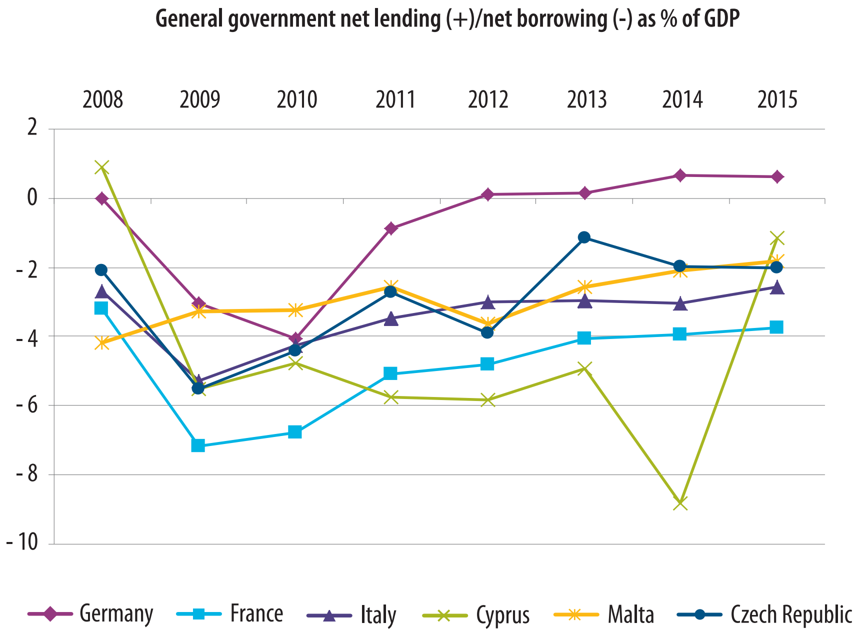
Of the 23 Member States under an EDP in November 2011, 15 had exited the procedure as of the end of 2015 (see ***Table 1***). All of the Member States we examined improved both their budget balance and their structural balance during the audited period (see ***Figure 10***[53]). The Czech Republic, Germany, Italy and Malta managed to exit the procedure. Cyprus agreed to a programme of financial assistance, and France remains under the EDP after three extensions to the deadline. France is the only Member State in our sample with a deficit that still exceeded the 3 % threshold in 2015.

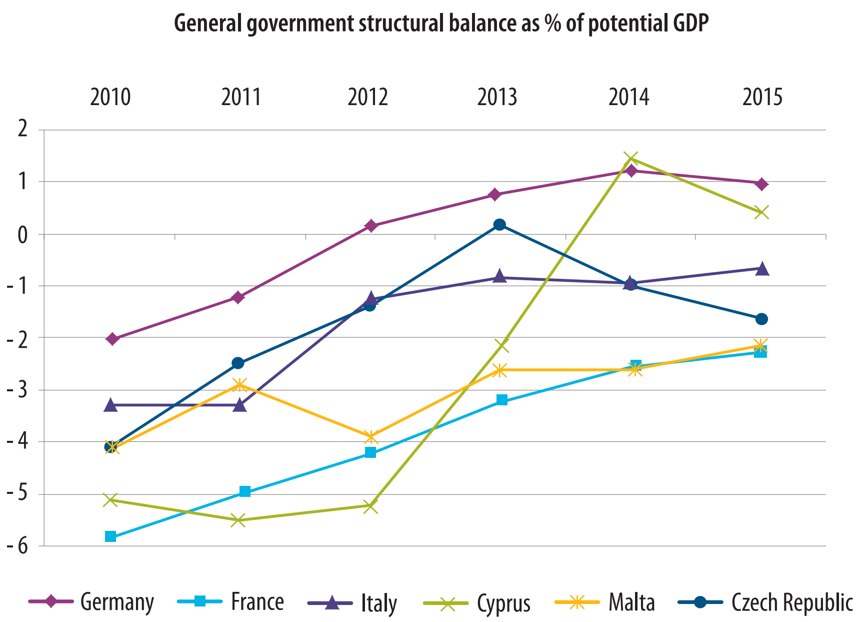
52 The structural balance is the budget balance net of the cyclical component and one-off and other temporary measures.

53 Data are provided for the period under scrutiny, i.e. 2008-2015. However, data for the structural balance have only been available in AMECO since 2010.

Figure 10

General government budget balance (2008-2015) and structural balance (2010-2015)



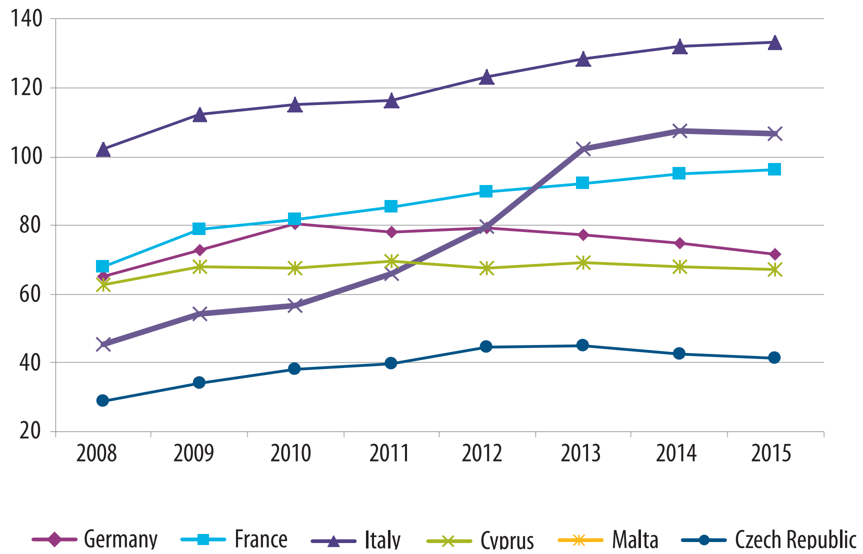


Source: ECA, based on AMECO (last update 5 May 2015).

117
The debt-to-GDP ratio of all the Member States in the sample was higher in 2015 than in 2008 (see ***Figure 11***). In mitigation, it must be recognised that the EDPs we examined were introduced in the midst of a severe financial crisis which contributed to a rapid increase in the debt level through a variety of channels, for example capital injections to banks and low or negative nominal growth. On average, the debt-to-GDP ratio in the EU increased by more than 24 % of GDP between 2008 and 2012, and all countries were affected.

Figure 11

Debt–to-GDP ratio (%) 2008-2015



Source: ECA, based on AMECO (last update 5 May 2015).

118

In Germany, Malta and the Czech Republic (where it remains under the threshold), the increase over the 2008-2015 period was moderate (4.4 percentage points in Malta, 6.4 percentage points in Germany and 12.8 percentage points in the Czech Republic) and the ratio is now on a downward path. Cyprus has had to cope with an unprecedented banking crisis and experienced an increase of 61.4 percentage points in its debt-to-GDP ratio from 2008 to 2015, with the sharpest rise coming between 2008 and 2013 (from 45.3 % to 102.2 %). However, since 2013, when it was placed under a programme of financial assistance, the debt dynamics have eased, and the ratio stabilised in 2014 (107.5 %) and 2015 (106.7 %). Finally, both, France and Italy experienced a continuous increase of around 30 percentage points in their debt-to-GDP ratio over the 2008-2015 period.

119

The drivers behind debt dynamics are the primary balance[54], the snowball effect[55] and the stock-flow adjustment[56]. The evolution of the debt-to-GDP ratio can therefore be broken down by the respective impact of those three drivers. ***Figure 12*** shows that breakdown, and ***Box 12*** provides a deeper analysis of the breakdown and of the debt dynamics for the Member States in the sample.

120

The analysis in ***Box 12*** suggests that the EDP framework is potentially effective at keeping debt at bay. However, a high initial level of debt (as in Italy) may hamper the effectiveness of the procedure in keeping the debt-to-GDP ratio under control, as may the reluctance of a Member State (e.g. France) to implement the EDP recommendations and ensure fiscal discipline.

121

Italian debt continued to increase, in spite of efforts towards fiscal discipline (as illustrated by a positive annual primary balance of +1.1 % on average over the period), owing to a significant snowball effect resulting from a combination of a large initial stock of debt, low or negative nominal GDP growth and episodes of high interest rates. France's debt-to-GDP ratio increased despite a moderate initial level due to a lack of budgetary discipline, as illustrated by insufficient improvement in the budgetary indicators (see ***Figure 10***) and by a significant negative primary balance (-2.7 % on average over the period).

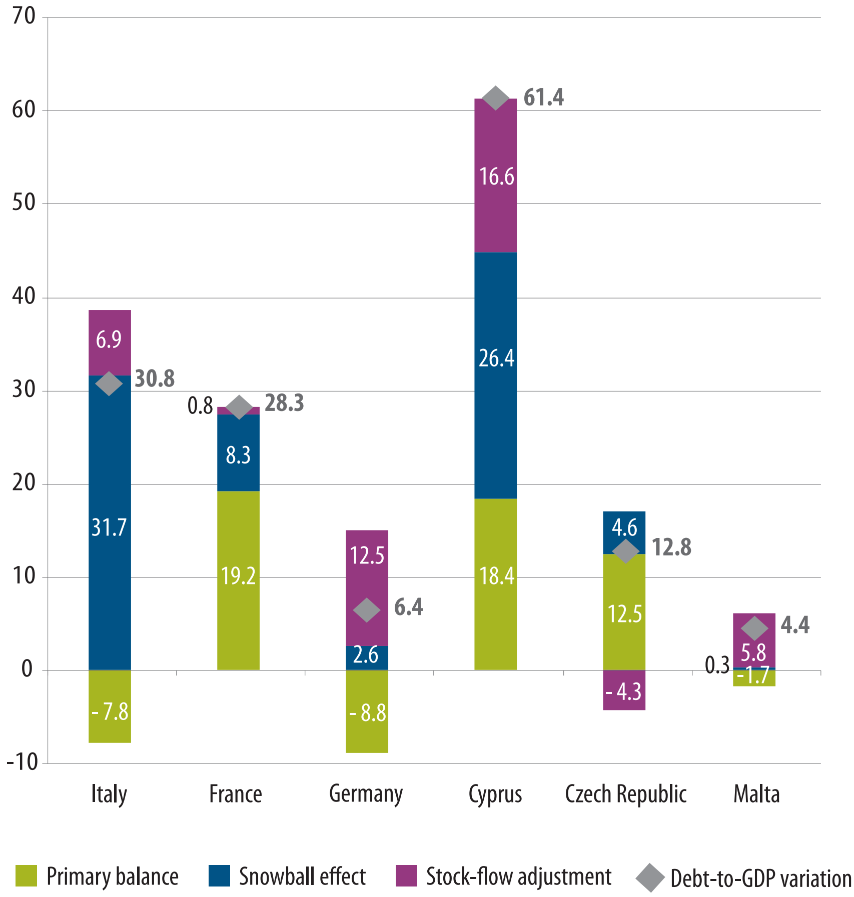
54 The primary balance is the budget balance net of interest payments on general government debt. The primary balance indicates the (positive or negative) amount of new debt created by the government and can thus be considered an indicator of fiscal discipline.

55 The snowball effect is the effect on public debt accumulation arising from the differential between the interest paid on public debt and the nominal GDP growth rate. If the interest rate is higher than the nominal rate of GDP growth, the snowball effect will induce an increase in the debt-to-GDP ratio. In principle, to stabilise the debt-to-GDP ratio the government has to achieve a primary balance that offsets the snowball effect.

56 The stock-flow adjustment groups all changes in public debt that cannot be explained by the deficit. It includes changes (accumulation and sales) in financial assets, changes in the value of debt denominated in foreign currency and sundry statistical adjustments.

Figure 12

Decomposition of the growth of public debt percentage points 2008-2015



Source: ECA, based on AMECO (last update 5 May 2015).

Box 12

Analysis of the evolution of public debt from 2008 to 2015

At the outset of the 2008 financial crisis, Italy's public debt was 102.3 % of GDP. From 2009 to 2015, Italy had to cope with a difficult economic situation, which was reflected in a strong negative output gap (-3.3 % on average) and a yearly average nominal growth rate of 0.0 %. Although Italy improved its structural balance from 2009 (see ***Figure 10***), the debt-to-GDP ratio rose by 30.8 percentage points. The debt dynamics were mainly driven by a strong snowball effect, since the primary surplus broadly offset the stock-flow adjustment (see ***Figure 12***). The snowball effect can be explained by the high stock of debt, the weakness of nominal growth and the impact of the sovereign debt crisis on interest rates.

France's debt-to-GDP ratio was 68.1 % in 2008. During the 2009-2015 period France faced a less severe economic turndown than Italy, with annual nominal growth of +1.3 % and an average output gap of -1.6 %. Despite a lower initial level of debt and better cyclical conditions, France experienced a comparable increase in the debt-to-GDP ratio (28.3 percentage points) during the period. The increase was mainly due (around 2/3) to a lack of budgetary discipline: during the period France ran an annual primary deficit of 2.7 %. The final 1/3 of the increase can be explained by the snowball effect.

In Germany the debt-to-GDP ratio stood at 65.1 % in 2008. Over the 2009-2015 period Germany benefited from a higher nominal annual growth rate (2.4 %) than France and Italy and a less negative output gap (-1.1 % on average) and experienced a rise of 6.4 percentage points in its debt-to-GDP ratio. This can be explained by better cyclical conditions combined with a protracted period of fiscal consolidation. However, the primary surplus only partially offset the stock-flow adjustments that were the main driver of the increase in debt - the snowball effect also playing a limited role.

In 2008 Cyprus had a debt-to-GDP ratio of 45.3 %. Over the period Cyprus faced a deep crisis, with negative average nominal growth (-1.0 %) and an output gap of -2.1 %. The increase of 61.4 percentage points (from 45.3 % in 2008 to 106.7 % in 2015) in its debt-to-GDP ratio can be explained by the negative impact of all the drivers: primary balance (-18.4 percentage points), snowball effect (-26.4 percentage points) and stock-flow adjustment (-16.6 percentage points).

The Czech Republic's debt-to-GDP ratio increased from 28.7 % to 41.5 % between 2008 and 2015, and thus remained below the threshold. In an economic environment characterised by average nominal growth of 1.5 % and an output gap of -1.5 %, the increase in debt (+12.8 percentage points) can mostly be explained by the primary deficit (-12.5 percentage points), with the stock-flow adjustment offsetting the snowball effect.

In 2008, Malta had a debt-to-GDP ratio of 62.7 %. Over the 2009-2015 period the country experienced average nominal growth of 4.6 % and an average nominal deficit of -2.8 %. As a result its debt-to-GDP ratio essentially remained stable, with an increase of 4.4 percentage points that can mostly be explained by the stock-flow adjustment.

122
The EDP provides for the possibility of sanctions against euro-area Member States for poor budgetary discipline. This can be done by stepping up the procedure whenever the Commission assessment shows that a Member State has failed to take effective action to correct its excessive deficit in time. Sanctions could also mean the imposition of a fine of up to 0.5 % of GDP.

123
However, since its inception, the EDP has been stepped up only once, for Belgium, and no sanctions have been applied so far. In our view this entails the risk that Member States will believe that it is unlikely that sanctions will be imposed. Such a perception would undermine the effectiveness and credibility of the EDP. Indeed, although the imposition of sanctions is not the real aim, a system devoid of sanctions is one that relies on nothing more than moral suasion, in which case, unless the Commission can win the Member States' cooperation, the EDP is bound to be ineffective.

The procedure has also had limited impact on ensuring implementation of the recommended structural reforms

124
Structural reforms are neither binding nor enforceable; therefore Member States are likely to make them subject to their governments' political agenda. The Commission is unable to influence or boost their implementation. As a result, most of the Member States in the sample only made partial or limited progress towards their reform objectives (see ***Annex VIII***). The outcome of EDP monitoring of the implementation of structural reforms often simply consisted in repeating the Council's country-specific recommendations from year to year.

125
Of the countries in our sample, only Cyprus made substantial progress in implementing structural reforms once it agreed to a financial assistance programme (April 2013). The latest available assessment shows that Cyprus has implemented the majority of the agreed measures in full, albeit with some delay. The programme placed Cyprus under closer and more comprehensive monitoring and stricter enforcement rules.

Positive signs - and a challenge - for the future

126

When presenting its proposals to implement the 'Five Presidents' Report' (see paragraph 4), the Commission acknowledged that the framework of European economic governance 'has deepened and widened in scope over the past years, but has also gained in complexity'[57], and that a first review of the strengthened framework had 'identified some areas for improvement, notably concerning transparency, complexity and predictability of policy making, which are relevant to the effectiveness of the tools'[58]. The Commission then expressed a commitment to pursuing '*the full and transparent application of the available instruments and tools*', and to improving clarity and reducing complexity, with the ultimate aim of improving the effectiveness of the existing rules.

127

We consider the proposals a positive development and encourage the Commission to abide resolutely by its commitments.

57 Press release at http://europa.eu/rapid/press-release_IP-15-5874_en.htm.

58 COM(2015) 600 final.

Conclusions and recommendations

128
The Commission has taken significant steps towards rationalising and simplifying its use of the excessive deficit procedure as a tool for better economic governance throughout the EU, in a context of increasing complexity. Most recently, it has stated a commitment to change in areas where we identified problems during the audited period: the need for a comprehensive outlook and for greater clarity and transparency to maximise the effectiveness of extensive rules and guidelines. The rules are in place, and implementation of the EDP is on the right track but will benefit greatly from the Commission's commitment to further improvements.

129
More detailed conclusions on the areas of implementation covered by the audit are set out below, together with specific recommendations.

Eurostat

Examination of data

130
The Commission (Eurostat) has improved its quality assessment processes since 2011 at the level of both resources and procedures. Standardising and increasing the number of requests for information has allowed EDP data to be more extensively analysed.

131
The Court found that the process of examining statistical data is not sufficiently well-documented for the analysis underlying quality assessments to be easily understood. In addition, it is based on data that are not always complete. It could also be made more explicit how the existing rules and guidelines are to be applied (see paragraphs 47 to 51).

Recommendation 1

The Commission (Eurostat) should better document and enhance the transparency of its work in relation to in-house verifications. This would give management and other desk officers a clearer overview of the content of analyses.

The Commission (Eurostat) should establish internal written procedures guiding the work of analysis in the quality assessment and better assess and document its in-house verification of data in areas such as the delimitation of the general government sector and specific government transactions.

Assessment of control systems

132
The Commission (Eurostat) does not adequately assess Member States' control systems in order to ensure that, despite Member States' having different statistical systems, they apply a consistent approach to the compilation of data. Owing to the general absence of documentation on the supervisory and control systems in place for data compilation, it is not possible to implement a systems-based approach for examining the quality of the data received (see paragraph 55).

Recommendation 2

The Commission (Eurostat) should enhance its quality assessments by including an examination of the supervisory and control systems in place in Member States, and clearly document its analyses. Written procedures should be drafted and implemented to ensure consistency.

Dialogue visits and direct verification

133
Between 2011 and 2013, the Commission (Eurostat) supplemented its 'standard' dialogue visits (SDVs) by introducing 'upstream' visits (UDVs) to analyse the management and control of upstream data. UDVs proved to be very useful to the quality assessment tasks of identifying, assessing and monitoring risks and problems. In 2014, UDVs were merged with SDVs, with the resulting visits each lasting two days. Given the large number of items on visit agendas, the duration of visits is not sufficient for important data quality issues to be adequately examined (see paragraphs 52 and 54).

134
Eurostat performs limited direct verifications during its on-the-spot visits. A well-structured risk analysis has been introduced, but this is not used to pre-select high-risk issues for visits. The elements of the risk analysis used to determine which Member States should receive a dialogue visit, and the topics to be discussed during such visits, could be better documented (see paragraph 53).

135
Eurostat's dialogue visit reports are published anything from nine to 52 weeks after the corresponding visits. Delays in publication mean that Member States are unable to share good practices and may prevent other stakeholders/users from recognising at the appropriate time that certain problems exist in a Member State (see paragraph 56).

Recommendation 3

The Commission (Eurostat) should adapt the duration of its dialogue visits to Member States, or carry out more visits, to ensure more complete coverage.

The Commission (Eurostat) should enhance its direct verifications as part of on-the-spot visits.

The Commission (Eurostat) should further reduce the time taken to publish its visit reports.

Action points

136
Action points are often not resolved within the recommended deadline. This entails a risk that problems relating to important issues will not be adequately taken into account in Eurostat's quality assessments (see paragraph 56).

Recommendation 4

The Commission (Eurostat) should make full use of its powers to enforce action in the areas of completeness, methodological responsibility and delivery of documents.

Guidance

137
When so requested for reasons of confidentiality, Eurostat does not report to the EFC or make public all the ex-ante/ex-post advice which it provides to Member States on a bilateral basis. This practice compromises transparency and comparability (see paragraphs 57 and 58).

Recommendation 5

To enhance transparency, the Commission (Eurostat) should report to the EFC and make public all advice which it provides on methodological issues. Where confidentiality concerns prevent publication of a document in full, at least a summary should be provided.

Outcome

138
The reasons for Eurostat reservations and amendments to data could be made more transparent (see paragraph 65).

139
Eurostat has not explicitly laid down written internal procedures for setting reservations as to data quality or making amendments (see paragraph 65).

Recommendation 6

The Commission (Eurostat) should better document its internal procedures and criteria for setting reservations or making amendments to data in order to demonstrate that all methodological problems with a potential/actual impact on net lending/net borrowing are addressed in a consistent way.

DG Economic and Financial Affairs

Transparency

140
In general, the analyses underlying the Commission's proposals for EDP decisions and recommendations lack transparency and, in certain key aspects, are based on vague definitions. Moreover, subsequent reforms of the EDP have increased the complexity of the analytical process. All this makes it difficult in some cases to establish a clear link between the analysis made and the conclusions drawn (see paragraphs 59 to 62, 72 to 83, 91 to 97 and 100 to 104).

141
There is therefore a need to balance the increased complexity and wider scope for economic judgement by enhancing transparency and thus facilitating public scrutiny. In recent years, the Commission has made commendable efforts to improve transparency. However, these efforts are not yet sufficient and need to be pursued further (see paragraph 98).

Recommendation 7

The Commission (DG Economic and Financial Affairs) should further enhance the transparency and clarity of the EDP in the following areas:

- Assessment process: the Commission should be more transparent about the key aspects of its analyses. It could achieve this by, for example, devising a methodology to identify and quantify the impact of one-off and temporary measures, by providing sufficiently detailed explanations of its assessments and conclusions in country-specific documents - regarding, notably, the concept of 'unexpected adverse economic events' when assessing effective action - and by establishing a methodological framework to weigh the impact of the relevant factors that it takes into account in its assessments.
- Accessibility of data: the Commission should make public all the detailed information needed to perform the calculations on which its analyses are based, thus enabling any interested third parties to replicate the assessments.
- Bottom-up assessment: national fiscal councils should be involved in the assessment process by inviting them to provide independent scrutiny of the reliability of the figures and information provided by ministries of finance and used by the Commission in its analyses.
- Robustness of analysis: the Commission should consistently make use of all the relevant information made available in its forecasts, abide by the relevant methodologies and disseminate them as widely and promptly as possible.

Debt criterion

142

The EDP has so far focused more on government deficit than on debt. The debt criterion only became operational in 2012, is still being phased in and will not apply to all Member States until at least 2020. The assessment of the debt dynamics of Member States under an EDP initiated before November 2011 is inconclusive: these EDPs are to be abrogated on the basis of the deficit criterion only, and this will be followed by a three-year transitional arrangement for debt (see paragraphs 68 to 69 and paragraph 104).

143

Flexibility add-ons to the EDP have meant that, in unfavourable economic times, compliance may be recognised even if the debt-to-GDP ratio increases. This may undermine the credibility of the process and put at risk the sustainability of public debt, especially during protracted periods of recession (when debt can rise even if the debt criterion is met). Ultimately, whether or not the debt criterion is met, the key thing is to repay or sustainably re-finance the actual amount of debt (see paragraphs 76 to 78).

Recommendation 8

The Commission should focus closely on debt developments, especially in heavily-indebted Member States, to prevent debt building to unsustainable levels.

Where the 60 % debt threshold is exceeded and the concerned Member State is placed under the EDP, the Commission should ensure that the required adjustments provide for a realistic and credible convergence path towards compliance with the debt rule, in particular by taking into account the initial level of debt.

In its EDP recommendations for Member States exceeding the debt threshold, the Commission should, when setting the annual deficit targets, also specify the annual debt-to-GDP levels that are consistent with those targets.

Structural reforms

144

Excessive public deficits may be at least partly due to structural weaknesses. Targeted structural reforms can therefore help to bring about lasting deficit corrections. Since May 2013, structural reforms have been gaining importance as a factor for the Commission's EDP assessments. However, they are still not enforceable and the Commission is no more diligent in monitoring their implementation than it is for Member States not under an EDP (see paragraphs 108 to 111).

145

Moreover, the monitoring of country-specific recommendations does not always extend to the actual implementation and effectiveness of reforms. This could compromise the impact of the Commission's recent decision to take greater account of the implementation of structural reforms (see paragraph 112).

Recommendation 9

In conjunction with the Macro-Imbalances Procedure, the Commission (DG Economic and Financial Affairs) should make full use of the European Semester in monitoring the implementation of structural reforms for Member States under an EDP, in particular where fiscal structural reforms are included in an economic partnership programme. Besides focusing on legislative aspects, it should seek to assess the effectiveness of the implemented reforms.

The Commission should make full use of its powers to ensure that Member States under an EDP meet their commitments with regard to structural reforms.

Reporting

146
The 'Six-pack' and 'Two-pack' introduced new reporting requirements for Member States with the aim of enhancing the Commission's surveillance of the EDP. However, these requirements are non-enforceable, in that there is no legislative provision to ensure that Member States comply in this regard, or for sanctions against those that do not. Thus the effectiveness of the Commission's surveillance is dependent on the active cooperation of the Member States. We found one case where the Member State had not sent reporting documents as required. However, the Commission has not made this public in its corresponding assessments (see paragraphs 85 to 86).

147
Even when it receives full documentation, the Commission does not always assess or follow up the information supplied, which raises concern that it is failing to make best use of the Member States' reports or that Member States are being burdened with a needless bureaucratic requirement (see paragraphs 99 and 110).

Recommendation 10

The Commission (DG Economic and Financial Affairs) should always make clear in its assessments whether the Member States have fulfilled their reporting requirements.

The Commission should make use of the possibility to launch infringement procedures when Member States do not comply with their reporting obligations.

Sanctions

148
Successive EDP reforms have strengthened sanctions against Member States that do not comply with recommendations, and have eased the conditions for imposing them. Since the EDP's inception, no sanctions have been applied (see paragraphs 114 and 122).

149

While sanctions are also useful as a deterrent, not applying them when Member States fail to fulfil their commitment to budgetary discipline brings the risk that they will be perceived as a tool unlikely to be used. This would undermine their credibility and effectiveness, and hence that of the EDP as a whole.

Recommendation 11

In line with existing legislation, the Commission (DG Economic and Financial Affairs) should recommend that the Council step up the procedure and apply sanctions when there is evidence that a Member State has not complied with EDP recommendations and therefore has failed to fulfil its commitment to budgetary discipline under the Treaty.

This Report was adopted by Chamber IV, headed by Mr Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 25 February 2016.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Legislation on the excessive deficit procedure

— Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, amended by:

√ Council Regulation (EC) No 475/2000 of 28 February 2000. Updated the conceptual framework underlying the EDP to ESA 95.

√ Commission Regulation (EC) No 351/2002 of 25 February 2002. Clarified the references to ESA 95 in the context of the EDP by replacing the codes 'B.9' and 'D.41' with 'EDP B.9' and 'EDP D.41' respectively.

√ Council Regulation (EC) No 2103/2005 of 12 December 2005, on the quality of statistical data in the context of the EDP.

— Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (replaced amended Regulation No 3605/93). Amended by:

√ Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure.

— Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as amended by the Council.

— Regulation (EC) No 1056/2005 of 27 June 2005 and Regulation (EU) No 1177/2011 of 8 November 2011 – the corrective arm of the Stability and Growth Pact.

— From the 'Six-pack':

√ Regulation (EU) No 1177/2011 of the European Parliament and of the Council of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure;

√ Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area.

— From the 'Two-pack':

√ Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.

— Intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact) – 2 March 2012.

Annex II

Some examples of missing information in documents from the six Member States examined

Missing information in the 2012, 2013 and 2014 April notifications
For year N-1: — In one Member State: (i) some detailed data for the social security funds sub-sector and for local government (including the working balance) was missing for entities that are not part of local government and for other adjustments to local government data; (ii) no data was provided on the contribution to the debt level by long-term loans (increase and reduction) for all levels of general government (April 2012 only) or on the breakdown of shares and other equity for state and local government. — In another Member State, data were not provided for some sub-sectors (for the working balance, financial transactions included in the working balance and 'other adjustments' on state government, local government and social security funds). For all levels of general government, most of the non-mandatory details requested were missing.
Missing data on trade credits and advances (AF.71 L) in table 4
In one Member State no data was provided until 2009, and in another there was none before 2011.
Missing data in EDP questionnaires
Five of the six Member States returned EDP questionnaires with incomplete mandatory fields. Examples of incomplete information: (i) four Member States sent incomplete data on capital injections, or none at all, for all years, and one Member State for year N-1; (ii) three Member States sent an incomplete table 4 (Breakdown of other accounts receivable/payable reported in EDP tables); (iii) although completeness has improved, two Member States sent incomplete tables 5 (Taxes and social contributions: other accounts receivable/payable of general government), 8 (Central government claims, debt cancellation) and 9 (Guarantees).
Other information
During 2008-2014, one Member State did not send the bridge tables[1] and the inventory as requested, and three Member States submitted after the deadline. The EDP inventories were due by December 2013, but two Member States sent them after the deadline – one in April and the other in November 2014.

1 Bridge tables show the correspondence between the items in the public accounts and the ESA classifications.

Source: ECA, based on Eurostat information.

Annex III

Some examples of classification weaknesses in documents from the six Member States examined

Main cases not fully compliant with ESA 95 but accepted by Eurostat

- in three Member States, the statistical register of public units did not provide exhaustive coverage, mainly at local government level;
- one Member State took a prudent approach, that is, automatically allocated to the general government sector – as ancillary units – all public units where sales to general government represented more than 80 % of total revenue, and applied the 50 % criterion to the remaining public units. The prudent approach is an automatic criterion that does not take into consideration the activity of the unit (type of services provided) or other conditions, such as tendering and market. The accounting rules do not specify what is to be done in these cases. Moreover, some units were classified on a group basis (e.g. hospitals) instead of being classified individually according to their market/non-market nature;
- one Member State took a prudent approach, but only with units below a certain size; for these units the 50 % criterion was applied so as to exclude 'other revenue' from sales and include all types of taxes in the cost of production. This was done because the Member State was unable to identify the subsidies to deduct from sales. However, although all taxes were included on the costs side, according to the accounting rules only 'other taxes on production' should have been included.

Main weaknesses in the classification of public institutional units

- one Member State classified the supervisory unit for financial markets, which is an institutional unit, within the general government sector. According to ESA 95, units of this kind should be classified outside general government (namely, as financial auxiliaries within the financial corporations sector). Other Member States correctly classified these institutional units outside general government;
- in one Member State we examined public units that were non-market and had been reclassified in October 2014 following the ESA 2010 benchmark revision. The Member State had reclassified a total of 158 public units in the general government sector, 20 because of the new ESA 2010 rules and the remaining 138 as part of a normal benchmark revision. The second group would have been reclassified within the general sector if they had previously been analysed correctly.

Other weaknesses

- In relation to the procedures and timing for analysing and (re)classifying units within/outside the general government sector, we found different approaches in the six Member States:

  (i) two Member States analyse and (re)classify units every five years under successive benchmark revisions, but monitors new units every year. However, in 2011 one had an action point recommending that the 50 % criterion should not exceed a period of 3-4 years, while the other had an action point recommending the market/non-market testing of all public units on an annual basis;

  (ii) three Member States analyse units every year and reclassify them if their nature (market/non-market) is different for three successive years;

  (iii) one Member State analyses units twice a year, or when funding conditions change, and reclassifies them when the nature of the units changes.

Source: ECA, based on Eurostat information and documents from the six Member States examined.

Annex IV

Some examples of action points with a potential impact on the deficit and debt data

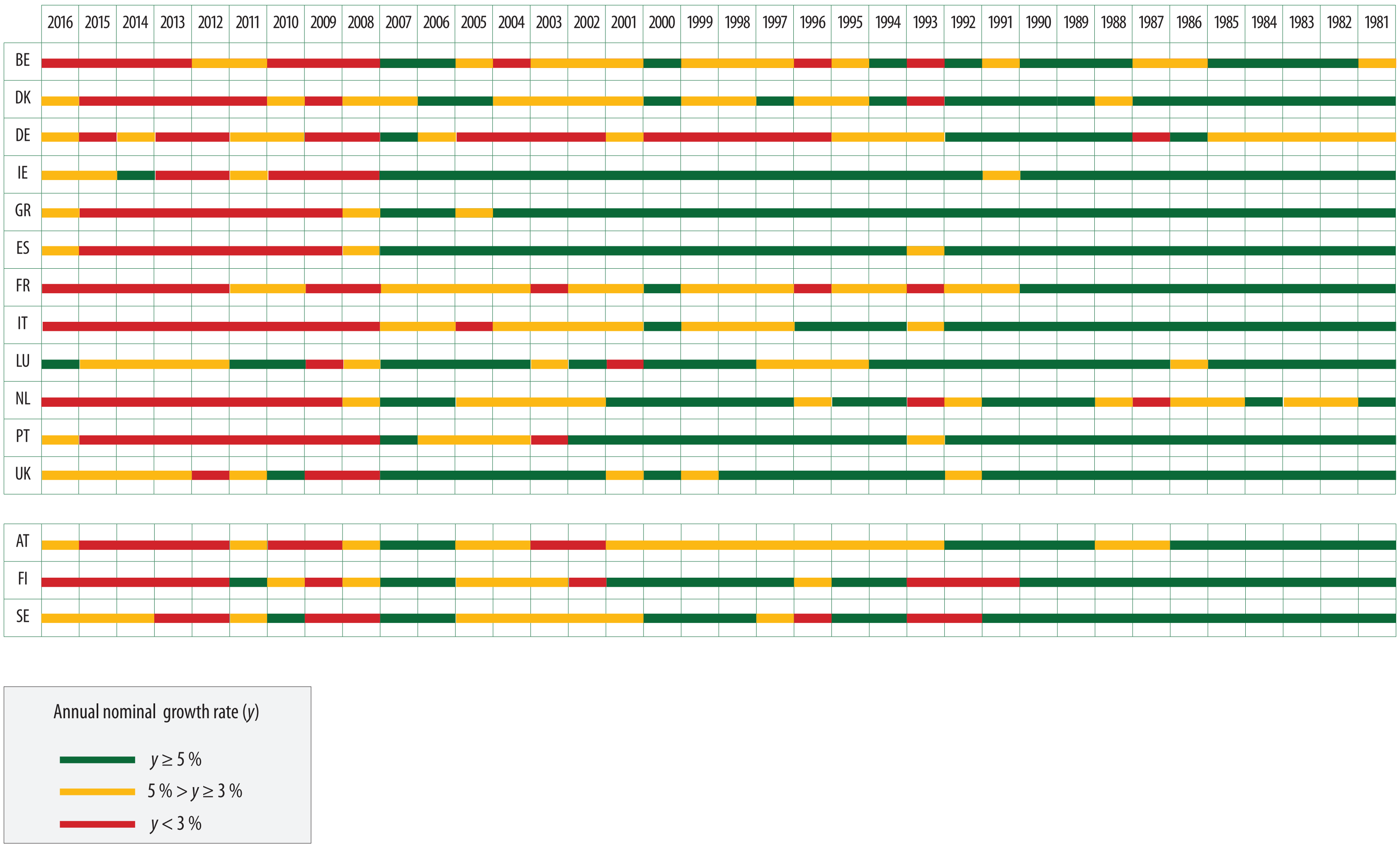
Czech Republic	**Application of the market/non-market test was infrequent and a large number of public units (corporations) were not tested** During its visit in 2009, Eurostat found that units with 'commercial' legal status (e.g. joint-stock companies, limited companies) had not been tested so far and set an action point accordingly. During the 2012 SDV, Eurostat set an action point because the government control test for large companies that are less than 50 % government-owned was not applied and therefore these units were not analysed. Despite the potential impact no reservation was expressed.
Germany	**Reclassification of non-market units to the general government sector from the first year of their non-market status** In its February 2014 visit, Eurostat detected the problem and set a deadline for compliance of May 2014. The matter was considered closed in July 2014. Clarifications sent in October 2014 showed that the NSI had only applied the action point to units classified after February 2014. Despite the potential impact (not known) no reservation was expressed. **Unavailability of detailed data for the analysis of capital injections, financial derivatives and distributions** Eurostat first raised the problem of unavailable data following its visit in 2007. The 2009 visit found that the situation had improved for central government swaps and for dividends. Eurostat detected certain problems but did not set an action point, and the matter of dividends was not discussed in detail. Action points were set in 2011 and 2013. In 2011 Eurostat noted that detailed data were unavailable for a proper analysis of capital injections and distributions, and that no local government data were available for swaps, but no action point was set. The 2013 UDV did result in action points, but the problem remains. Despite the potential impact (not known) no reservation was expressed.
France	**Decommissioning of nuclear facilities - Marcoule (1.6 billion (0.1 % of GDP) for 2004)** This action point was first discussed at the time of the 2006 visit but, owing to disagreement with the NSI about the correct classification, Eurostat postponed the decision. The case concerned the recording of a lump-sum payment received by a government unit against the assumption of decommissioning costs, with all other obligations to be discharged by the operator. In 2005 Eurostat had given advice on this transaction, proposing that it be classified as pre-payments for the purchase of services, but the NSI disagreed and instead recorded a capital transfer, which improved the net lending/net borrowing figures. In 2008 the issue was discussed again but no further action was taken. Despite the known impact no reservation was expressed. **Sector delimitation** Following its visit in 2012, Eurostat set an action point in connection with the fact that the general government sector was incomplete because it did not include public corporations belonging to/controlled by local government. As of the end of 2014 the NSI had still not provided an exhaustive list. Despite the potential impact (not known) no reservation was expressed.

Italy	**Accrual recording of gross fixed capital formation** In its 2012 UDVs Eurostat set an action point in connection with the fact that large investment amounts were recorded on a cash rather than an accrual basis. The NSI was given until 2014 to calculate the correct amounts. In 2013 an action point was set requesting a progress report. The NSI corrected the amounts in the October 2014 EDP notification. Despite the potential impact (not known) no reservation was expressed.
Malta	**Malita and City Gate project** Eurostat had detected a problem in its analysis of the revisions in the EDP notification of October 2011. In 2012 it set an action point as a follow-up to discussions: the NSI was urged in short order to send Eurostat a description of the statistically relevant aspects of the Malita and City Gate project, together with its view of the statistical recording of operations. This point was analysed by Eurostat under bilateral guidance; it was agreed in August 2012 and implemented in October the same year. The impact on the deficit was 0.4 % of GDP. No reservation had been expressed in April 2012.

Source: ECA, based on Eurostat reports on visits to the six Member States examined.

Annex V

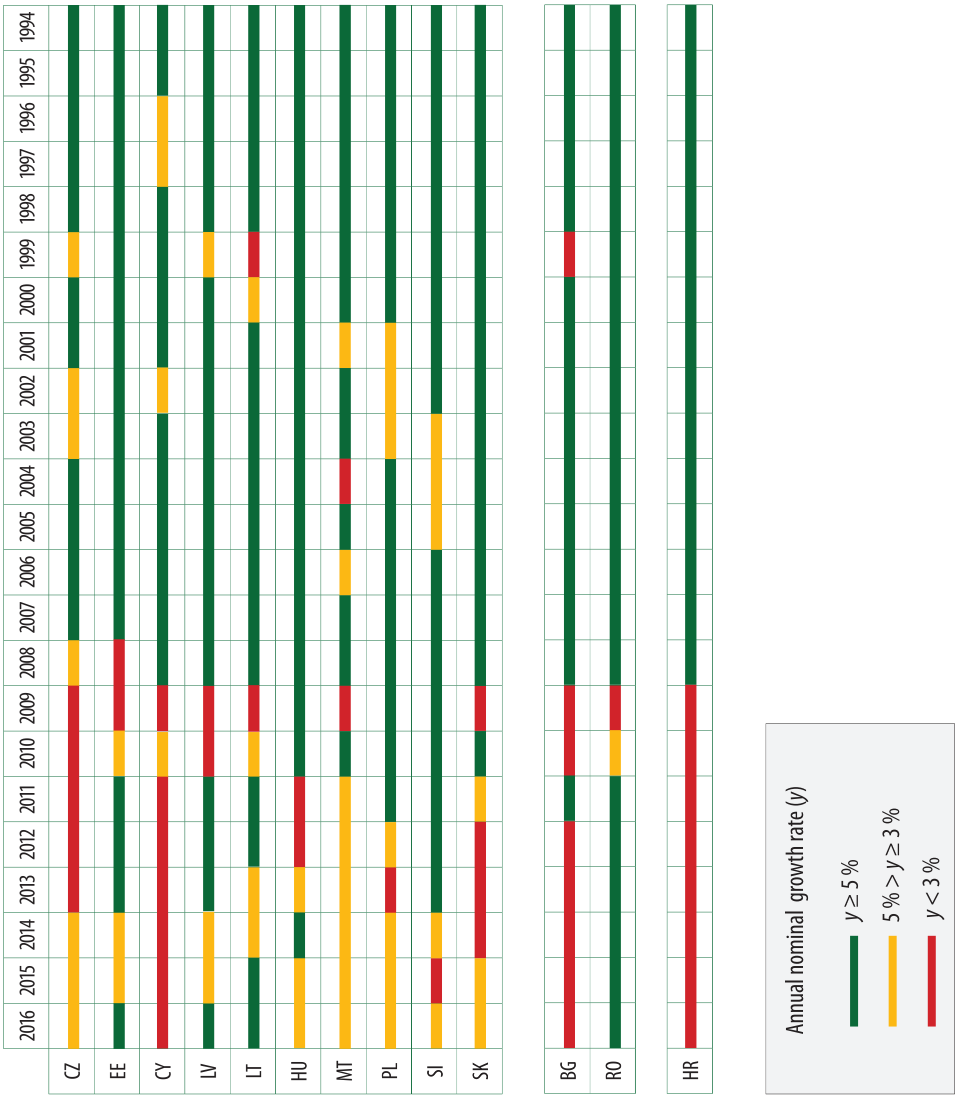
Annual nominal GDP growth rate



Source: ECA, based on AMECO database.

Annex V

Annual nominal GDP growth rate



Source: ECA, based on AMECO database.

Annex VI

Compliance with the nominal and structural targets set in EDP recommendations and EDP deadline extensions

Annex VI illustrates how the EDPs introduced for the Member States in the sample have evolved. In each case the blue cells show the year of the EDP deadline, with blue arrows pointing to any extensions. Other colours show whether the Member State complied (green) or not (red) with the targets set in the Council's EDP recommendations for the relevant indicators (headline deficit, structural effort and, for recommendations issued after the 'Six-pack' entered into force, the adjusted structural deficit and bottom-up indicator). The first number in a cell represents the target, and the second is the actual value achieved. Finally, yellow cells indicate that no annual target was set for the year in question, black cells that the specific indicator was not applicable (not yet in force) and grey cells that, although the data were available, the Commission did not take them into account in its assessment of effective action.

Source: ECA, based on the Council's EDP decisions and recommendations, Commission's Article 126(3) reports and staff working documents underlying the assessments of SCPs, draft budgetary plans and the 4th, 6th and 7th reviews of the economic adjustment programme for Cyprus.

France

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE
- EXTENSION OF EDP DEADLINE

Assessement	2009	2010	2011	2012	2013	2014	2015	2016	2017	Overall assesment
	EDP initiated on 06 April 2009									
Assess. of effective action (11.11.2009)										
EDP deadline										
Headline deficit	- 5,6 % → - 8,3 %	nts → - 8,2 %	nts → - 7,7 %	> - 3 % →						
Structural effort	nts	1 % → 0,5 %	1 % → 0,1 %	> 1 % →						
Adjusted structural effort										
Bottom-up approach										
2010 SP (31.03.2010)										
EDP deadline										
Headline deficit	nts	nts → - 8,2 %	nts → - 7,7 %	nts	> - 3 % →					
Structural effort	nts	> 1 % → 0,4 %	> 1 % → 0,1 %	> 1 % →	> 1 % →					
Adjusted structural effort										
Bottom-up approach										
Assess. of effective action (15.06.2010)										
EDP deadline										
Headline deficit		nts → - 8 %	nts → - 7,4 %	nts	> - 3 % →					
Structural effort		> 1 % → 0 %	> 1 % → 0 %	> 1 % →	> 1 % →					
Adjusted structural effort										
Bottom-up approach										
2011 SP (07.06.2011)										
EDP deadline										
Headline deficit		nts → - 7 %	nts → - 5,8 %	nts → - 5,3 %	> - 3 % →					
Structural effort		>1 % →	> 1 % → 1 %	> 1 % → 0,2 %	> 1 % →					
Adjusted structural effort										
Bottom-up approach										
2012 SP (30.05.2012)										
EDP deadline										
Headline deficit			nts → - 5,2 %	nts → - 4,5 %	> - 3 % → - 4,2 %					
Structural effort			> 1 % → 0,8 %	> 1 % → 0,9 %	> 1 % → 0,4 %					
Adjusted structural effort										
Bottom-up approach										
2013 SP (29.05.2013)										
EDP deadline										
Headline deficit				nts → - 4,8 %	> - 3 % → - 3,9 %	> - 3 % → - 4,2 %				
Structural effort				> 1 %	> 1 %					
Adjusted structural effort										
Bottom-up approach										
Assess. of effective action (29.05.2013)										
EDP deadline										
Headline deficit		nts → - 7,1 %	nts → - 5,3 %	nts → - 4,8 %	> - 3 % → - 3,9 %	> - 3 % → - 4,2 %				
Structural effort		> 1 % → 0,3 %	> 1 % → 1,1 %	> 1 % → 1,1 %	> 1 % → 1,4 %					
Adjusted structural effort		> 1 % → 0,2 %	> 1 % → 0,9 %	> 1 % → 1,1 %	> 1 % → 1,3 %					
Bottom-up approach		nts → - 0,75 %	nts → - 1,5 %	nts → 1,5 %	nts → 1,5 %					

Unexpected adverse economic events with major unfavourable consequences for government finances

The bottom-up assessment shows that France achieved the required fiscal effort (however the methodology for the bottom-up assessment had not yet been endorsed by the Council at the time of the assessment).


2014 DBP (15.11.2013)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
> - 3,9 % → - 4,1 %
1,3 % → 0,9 %
1,3 % → 1,3 %
0 % → - 0,1 %
> - 3,6 % → - 3,8 %
> 0,8 % → 0,7 %
> 0,8 % → 0,8 %
> 1 % → 0,9 %
- 2,8 % → - 3,7 %
> 0,8 % → - 0,4 %
0,8 % →
>1 % →
Assess. of effective action (19.11.2013)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
> - 3,9 % → - 4,1 %
1,3 % → 0,9 %
1,3 % → 1,3 %
0 % → - 0,1 %
> - 3,6 % → - 3,8 %
> 0,8 % → 0,7 %
> 0,8 % → 0,8 %
> 1 % → 0,9 %
- 2,8 % → - 3,7 %
0,8 % →
0,8 % →
>1 % →
2014 SP (02.06.2014)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
> - 3,9 % → - 4,3 %
1,3 % → 0,8 %
1,3 % → 1,2 %
0 % → - 0,1 %
> - 3,6 % → - 3,9 %
> 0,8 % → 0,6 %
> 0,8 % → 0,7 %
> 1 % → 1 %
- 2,8 % → - 3,4 %
0,8 % → 0,4 %
0,8 % →
>1 % →
2015 DBP (28.11.2014)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
> - 3,9 % → - 4,1 %
1,3 % → 1 %
1,3 % → 1,1 %
0 % → - 0,1 %
> - 3,6 % → - 4,4 %
> 0,8 % → 0,3 %
> 0,8 % → 0,5 %
> 1 % → 0,9 %
- 2,8 % → - 4,5 %
0,8 % → 0,1 %
0,8 % → 0,0 %
> 1 % → 0,7 %
Assess. of effective action (27.02.2015)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
> - 3,9 % → - 4,1 %
1,3 % → 1 %
1,3 % → 1,2 %
0 % → - 0,1 %
> - 3,6 % → - 4,3 %
0,8 % → 0,4 %
> 0,8 % → 0,7 %
> 1 % → 1,1 %
- 2,8 % →
0,8 % →
0,8 % →
>1 % →
2015 SP (27.05.2015)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
- 4,0 % → - 3,8 %
0,5 % → 0,3 %
0,5 % → 0,4 %
0,2 % → 0 %
> - 3,4 % → - 3,5 %
0,8 % → 0,0 %
0,8 % → - 0,1 %
1,2 % → 0,3 %
'Overall the available evidence does not allow concluding that the recommended effort has not been delivered in 2013-2014'
EDP held in abeyance

GERMANY

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE

Assessment	2010	2011	2012	2013
	EDP initiated on 30 November 2009			
2010 SP (31.03.2010)				
EDP deadline				
Headline deficit	**nts → - 5.7 %**	**nts → - 5.7 %**	**nts →**	**> - 3 % →**
Structural effort	**nts → - 1.7 %**	**0.5 % → 0.1 %**	**0.5 % → 0.1 %**	**0.5 % →**
Adjusted structural effort				
Bottom-up approach				
Assess. of effective action (15.06.2010)				
EDP deadline				
Headline deficit	**nts → - 5.7 %**	**nts → - 5.7 %**	**nts →**	**> - 3 % →**
Structural effort	**nts → 0.5 %**	**0.5 % → 0.0 %**	**0.5 % →**	**0.5 % →**
Adjusted structural effort				
Bottom-up approach				
2011 SP (07.06.2011)				
EDP deadline				
Headline deficit	**nts → - 3.3 %**	**nts → - 2.0 %**	**nts → - 1.2 %**	**> - 3 % →**
Structural effort	**nts → 0.0 %**	**0.5 % → 0.5 %**	**0.5 % → 0.6 %**	**0.5 % →**
Adjusted structural effort				
Bottom-up approach				
2012 SP (30.05.2012)				
EDP deadline				
Headline deficit		**nts → - 1.0 %**	**nts → - 0.9 %**	**> - 3 % → - 0.7 %**
Structural effort		**0.5 % → 1.1 %**	**0.5 % → 0.4 %**	**0.5 % → 0.1 %**
Adjusted structural effort				
Bottom-up approach				

EDP abrogated on 22 June 2012

CYPRUS

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE
- EXTENSION OF EDP DEADLINE

EDP initiated on 06 July 2010

Assessment	2010	2011	2012	2013	2014	2015	2016
Assess. of effective action (27.01.2011)							
EDP deadline							
Headline deficit	- 6 % →- 5.9 %	nts → - 5.7 %	> - 3% →				
Structural effort	nts → 0.0 %	1,5 % → + 0.7 %	1,5 % → %				
Adjusted structural effort							
Bottom-up approach							
2011 SP (07.06.2011)							
EDP deadline							
Headline deficit	- 6 % →- 5.3 %	nts → - 5.1 %	> - 3 % → - 4.9 %				
Structural effort	nts → + 0.7 %	1,5 % → + 0.5 %	1,5 % → - 0.2 %				
Adjusted structural effort							
Bottom-up approach							
Assess. of effective action (11.01.2012)							
EDP deadline							
Headline deficit		nts → - 6.7 %	> - 3 % → - 2.7 %	> - 3 % → - 1.8 %			
Structural effort		1,5 % → - 0.2 %	cum 1,5 % → + 0.7 %				
Adjusted structural effort		1,5 % → - 0.2 %	cum 1,5 % → + 0.8 %				
Bottom-up approach							
2012 SP (30.05.2012)							
EDP deadline							
Headline deficit		nts → - 6.3 %	> - 3 % → - 3.4 %	> - 3 % → - 2.5 %			
Structural effort		> 1 % → - 0.4 %	> 1 % → + 2.9 %	> 1 % → + 1.0 %			
Adjusted structural effort							
Bottom-up approach							
Assess. of effective action (07.05.2013)							
EDP deadline							
Headline deficit	nts → - 5.3 %	nts → - 6.3 %	> - 3 % → - 6.3 %				
Structural effort	nts → + 0.8 %	> 1 % → - 0.9 %	> 1 % → - 0.1 %				
Adjusted structural effort		> 1 % → + 2.2 %	> 1 % → + 2.4 %				
Bottom-up approach		> 1 % → + 1.5 %	> 1 % → + 4.25 %				
Assess. of effective action (06.09.2013)							
EDP deadline							
Headline deficit				- 6.5 % → - 8.4 %	- 8.4 % → - 8.4 %	- 6.3 % → %	- 2.9 % →
Structural effort				+ 1.3 % (min 0.5 %) → + 1.2 %	+ 0.3 % (min 0.5 %) → + 0.1 %	+ 0.7 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
Adjusted structural effort				+ 1.3 % (min 0.5 %) → + 0.9 %	+ 0.3 % (min 0.5 %) → + 0.7 %	+ 0.3 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
Bottom-up approach				+ 4.75 % → + 4.5 %	+ 1.75 % → + 2.5 %		
				- 6.5 % → - 5.4 %	- 8.4 % → - 5.3 %	- 6.3 % → - 5.1 %	- 2.9 % → - 2.4 %
				+ 1.3 % (min 0.5 %) → + 3.0 %	+ 0.3 % (min 0.5 %) → - 0.2 %	+ 0.7 % (min 0.5 %) → + 0.2 %	+ 1.8 % (min 0.5 %) → + 1.7 %
				+ 1.3 % (min 0.5 %) → %	+ 0.3 % (min 0.5 %) → %	+ 0.7 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
				+ 4.75 % → %	+ 1.75 % → %		
4th Programme Review (cut-off date: 20 May 2014)							
EDP deadline							
Headline deficit				- 6.5 % → - 5.4 %	- 8.4 % → - 5.3 %	- 6.3 % → - 5.1 %	- 2.9 % → - 2.4 %
Structural effort				+ 1.3 % (min 0.5 %) → + 3.0 %	+ 0.3 % (min 0.5 %) → - 0.2 %	+ 0.7 % (min 0.5 %) → + 0.2 %	+ 1.8 % (min 0.5 %) → + 1.7 %
Adjusted structural effort				+ 1.3 % (min 0.5 %) → %	+ 0.3 % (min 0.5 %) → %	+ 0.7 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
Bottom-up approach				+ 4.75 % → %	+ 1.75 % → %		
6th Programme Review (cut-off date: 15 May 2015)							
EDP deadline							
Headline deficit				- 6.5 % → - 4.9 %	- 8.4 % → - 0.2 %	- 6.3 % → - 1.5 %	- 2.9 % → - 0.1 %
Structural effort				+ 1.3 % (min 0.5 %) → + 4.3 %	+ 0.3 % (min 0.5 %) → - 0.7 %	+ 0.7 % (min 0.5 %) → + 1.4 %	+ 1.8 % (min 0.5 %) → + 0.1 %
Adjusted structural effort				+ 1.3 % (min 0.5 %) → %	+ 0.3 % (min 0.5 %) → %	+ 0.7 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
Bottom-up approach				+ 4.75 % → %	+ 1.75 % → %		
7th Programme Review (cut-off date: 24 July 2015)							
EDP deadline							
Headline deficit				- 6.5 % → - 4.9 %	- 8.4 % → - 8.8 %	- 6.3 % → - 0.9 %	- 2.9 % → - 0.1 %
Structural effort				+ 1.3 % (min 0.5 %) → + 4.4 %	+ 0.3 % (min 0.5 %) → + 3.9 %	+ 0.7 % (min 0.5 %) → - 1.6 %	+ 1.8 % (min 0.5 %) → + 0.0 %
Adjusted structural effort				+ 1.3 % (min 0.5 %) → %	+ 0.3 % (min 0.5 %) → %	+ 0.7 % (min 0.5 %) → %	+ 1.8 % (min 0.5 %) → %
Bottom-up approach				+ 4.75 % → %	+ 1.75 % → %		

MS placed under a programme of financial assistance on 02 April 2013

Unexpected adverse economic events with major unfavourable consequences for government finances

EDP held in abeyance

Annex VI

ITALY

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE

Assessment	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	EDP initiated on 30 November 2009					
2010 SP (31.03.2010)						
EDP deadline						
Headline deficit	**nts → - 5.3 %**	**nts → - 5.1 %**	**> - 3 % →**			
Structural effort	**0.5 % → 0.0 %**	**0.5 % → 0.0 %**	**0.5 % →**			
Adjusted structural effort						
Bottom-up approach						
Assess. of effective action (15.06.2010)						
EDP deadline						
Headline deficit	**nts → - 5.7 %**	**nts → - 5.7 %**	**> - 3 % →**			
Structural effort	**+ 0.5 % → - 0.5 %**	**+ 0.5 % → 0.0 %**	**0.5 % →**			
Adjusted structural effort						
Bottom-up approach						
2011 SP (07.06.2011)						
EDP deadline						
Headline deficit	**nts → - 4.6 %**	**nts → - 4.0 %**	**> - 3 % → - 3.2 %**			
Structural effort	**+ 0.5 % → + 2.3 %**	**+ 0.5 % → + 0.4 %**	**+ 0.5 % → + 0.4 %**			
Adjusted structural effort						
Bottom-up approach						
2012 SP (30.05.2012)						
EDP deadline						
Headline deficit		**nts → - 3.9 %**	**> - 3 % → - 2.0 %**	**> - 3 % → - 1.1 %**		
Structural effort		**+ 0.5 % → - 0.9 %**	**+ 0.5 % → - 0.6 %**			
Adjusted structural effort						
Bottom-up approach						
2013 SP (29.05.2013)						
EDP deadline						
Headline deficit			**> - 3 % → - 3.0 %**	**> - 3 % → - 2.9 %**	**> - 3 % → - 2.5 %**	
Structural effort			**+ 0.5 % → + 2.2 %**			
Adjusted structural effort						
Bottom-up approach						
			EDP abrogated on 21 June 2013			

CZECH REPUBLIC

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE

EDP initiated on 30 November 2009

Assessment	2010	2011	2012	2013	2014	2015
2010 SP (31.03.2010)						
EDP deadline						
Headline deficit	nts → % - 5.5 %	nts → % - 5.7 %	nts → %	> - 3 % →		
Structural effort	1 % → % + 1.4 %	1 % → % - 0.2 %	1 % → %	1 % → %		
Adjusted structural effort						
Bottom-up approach						
Assess. of effective action (15.06.2010)						
EDP deadline						
Headline deficit	nts → - 5.7 %	nts → - 5.7 %	nts → %	> - 3 % →		
Structural effort	1 % → 0.5 %	1 % → 0 %	1 % →	1 % →		
Adjusted structural effort						
Bottom-up approach						
2011 SP (07.06.2011)						
EDP deadline						
Headline deficit	nts → - 4.7 %	nts → - 4.4 %	nts → - 4.1 %	> - 3 % →		
Structural effort	→ + 2.2 %	1 % → + 0.6 %	1 % → -0.1 %	1 % →		
Adjusted structural effort						
Bottom-up approach						
2012 SP (30.05.2012)						
EDP deadline						
Headline deficit		nts → - 3.1 %	nts → - 2.9 %	> - 3 % → - 2.6 %		
Structural effort		1 % → + 1.5 %	1 % → + 0.2 %	1 % → + 0.3 %		
Adjusted structural effort						
Bottom-up approach						
2013 SP (29.05.2013)						
EDP deadline						
Headline deficit			nts → - 4.4 %	> -3 % → - 2.9 %	> - 3 % → - 3.0 %	
Structural effort			1 % → + 0.9 %	1 % → + 0.1 %		
Adjusted structural effort						
Bottom-up approach						
2014 SP (02.06.2014)						
EDP deadline						
Headline deficit				> - 3 % → - 1.5 %	> -3 % → - 1.9 %	> - 3 % → - 2.4 %
Structural effort				1 % → + 1.5 %		
Adjusted structural effort						
Bottom-up approach						

EDP abrogated on 20 June 2014

Annex VI

MALTA

LEGEND:

- MEETING THE TARGET
- NOT MEETING THE TARGET
- NO TARGET SET (nts)
- NOT APPLICABLE (n/a)
- DATA NOT AVAILABLE
- DATA AVAILABLE, BUT NOT TAKEN INTO ACCOUNT BY COMMISSION
- EDP DEADLINE
- EXTENSION OF EDP DEADLINE

EDP initiated on 06 July 2009

Unexpected adverse economic events with major unfavourable consequences for government finances

Assessment	2009	2010	2011	2012	2013	2014	2015	2016	2017	Overall assessment
Assess. of effective action (09.02.2010)										
Headline deficit	nts → %	> - 3.0 % → - 4.5 %								
Structural effort	nts	nts								
Adjusted structural effort										
Bottom-up approach										
2010 SP (07.04.2010)										
EDP deadline										
Headline deficit	nts → - 4.5 %	nts → - 4.4 %	> - 3.0 % → - 4.3 %							
Structural effort	nts → + 0.7 %	nts → + 0.2 %	> 0.75 % → - 0.3 %							
Adjusted structural effort										
Bottom-up approach										
Assess. of effective action (06.01.2011)										
EDP deadline										
Headline deficit	nts → - 3.8 %	nts → - 4.2 %	> - 3.0 % → - 3.0 %	> - 3.0 % → - 3.3 %	> - 3.0 % → - 3.6 %					
Structural effort	nts → + 1.8 %	nts → - 1.0 %	> 0.75 % → + 1.2 %							
Adjusted structural effort										
Bottom-up approach										
2011 SP (07.06.2011)										
EDP deadline										
Headline deficit		nts → - 3.6 %	> - 3.0 % → - 3.0 %	> - 3.0 % → - 3.3 %						
Structural effort		nts → 0.0 %	> 0.75 % → + 1.2 %							
Adjusted structural effort										
Bottom-up approach										
2011 budgetary situation (11.01.2012)										
EDP deadline										
Headline deficit		nts → - 3.6 %	> - 3.0 % → - 3.0 %	> - 3.0 % → + 3.5 %						
Structural effort		nts →	> 0.75 % → + 1.0 %							
Adjusted structural effort			> 0.75 % → + 0.7 %							
Bottom-up approach										
2012 SP (30.05.2012)										
EDP deadline										
Headline deficit			> - 3.0 % → - 2.7 %	> - 3.0 % → - 2.6 %	> - 3.0 % → - 2.9 %					
Structural effort			> 0.75 % → + 1.0 %							
Adjusted structural effort										
Bottom-up approach										
Assess. of effective action (14.11.2012)										
EDP deadline										
Headline deficit			> - 3.0 % → - 2.7 %	> - 3.0 % → - 2.6 %	> - 3.0 % → - 2.9 %					
Structural effort			> 0.75 % → + 1.1 %							
Adjusted structural effort										
Bottom-up approach										

EDP abrogated on 27 December 2012


EDP initiated on 18 June 2013
EDP abrogated on 19 June 2015
Assess. of effective action (15.11.2013)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
- 3.4 % → - 3.4 %
+ 0.7 % → + 0.3 %
+ 0.7 % → + 0.5 %
- 2.7 % → - 3.4 %
+ 0.7 % → + 0.1 %
+ 0.7 % → + 0.34 %
2014 DBP (19.11.2013)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
- 3.4 % → - 3.4 %
+ 0.7 % → + 0.3 %
+ 0.7 % → - 0.1 %
- 2.7 % → - 3.4 %
+ 0.7 % → + 0.1 %
+ 0.7 % → + 0.2 %
2014 SP (02.06.2014)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
+ 3.4 % → - 2.8 %
+ 0.7 % → + 1.2 %
- 2.7 % → - 2.5 %
+ 0.7 % → + 0.1 %
cum 1.4 % → + 1.6 %
cum 1.15 % → - 0.1 %
> - 3.0 % → - 2.5 %
2015 DBP (28.11.2014)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
+ 3.0 % → - 2.7 %
+ 0.7 % → + 1.4 %
- 2.7 % → - 2.5 %
+ 0.7 % → 0.0 %
> - 3.0 % → - 2.6 %
Assess. of effective action (13.05.2015)
EDP deadline
Headline deficit
Structural effort
Adjusted structural effort
Bottom-up approach
+ 3.4 % → - 2.6 %
- 2.7 % → - 2.1 %
cum 1.4 % → + 1.3 %
> - 3.0 % → - 1.8 %
> - 3.0 % → - 1.5 %

Differences between Commission and Council recommendations

	Commission recommendation	Council recommendation
Cyprus 6.7.2010	the Cypriot authorities should ensure an average annual fiscal effort of at least 1¾ % of GDP over the period 2010-2012	the Cypriot authorities should ensure an average annual fiscal effort of at least 1½ % of GDP over the period 2011-2012
Czech Republic 30.11.2009	the Council invites the Czech authorities to continue with the necessary pension and healthcare reforms, reforms aimed at raising labour supply and skill levels, and reforms increasing the amount and effectiveness of public R&D	the Council invites the Czech authorities to continue with the necessary pension and healthcare reforms
France 6.4.2009	the French authorities should stand ready to implement the necessary annual efforts going beyond those foreseen in the subsequent years of the correction period in order to ensure that the annual targets are respected and that the deficit is brought below the reference value by 2012 even if downside risks to the budgetary targets were to materialise	the French authorities should implement the necessary efforts to bring the deficit below the reference value by 2012
France 30.11.2009	the French authorities should ensure an average annual structural budgetary adjustment of 1¼ % of GDP over the period 2010-2013	the French authorities should ensure an average annual fiscal effort of above 1 % of GDP over the period 2010-2013
	France should improve the overall competition framework, with particular emphasis on network industries, further reform the pension system, modernise employment protection and enhance life-long learning to improve potential GDP growth	France should further reform the pension system as planned which would contribute to long-term fiscal sustainability
France 18.6.2013	the French authorities should report on progress made in the implementation of these recommendations at least every six months, as well as in a separate chapter of the stability programmes, until full correction of the excessive deficit has taken place	Nil
Germany 30.11.2009	the Council invites the German authorities to implement reforms with a view to raising potential GDP growth. This includes (. . .) reforms to improve the framework for competition in services and promote the integration of the low-skilled and long-term unemployed into the labour market through a flexicurity approach which combines better access to qualifications with improved incentives to work	the Council invites the German authorities to implement reforms with a view to raising potential GDP growth
Italy 30.11.2009	the Italian authorities should ensure an average annual fiscal effort of 0.5 percentage points of GDP over the period 2010-2012	the Italian authorities should ensure an average annual fiscal effort of at least 0.5 percentage points of GDP over the period 2010-2012
	the Italian authorities are also invited to step up efforts to strengthen competition in product and services markets, simplify legislation, reduce the administrative burden at all levels of government and, within a 'flexicurity' approach and with a view to reducing regional disparities, improve the functioning of the labour market and the efficiency, outcomes and standards of the education system	Nil

Source: ECA.

Implementation of planned structural reforms

	2011	2012	2013
France			
CSR1	Partly implemented	Some progress	Some progress / limited progress / some progress
CSR2	Partly implemented	Some progress	Some progress / some progress / some progress
CSR3	Partly implemented	Some progress	Some progress / some progress / some progress
CSR4	Partly implemented	Substantial progress	Limited progress/limited progress / some progress
CSR5	Partly implemented	Limited progress	No progress / no progress / some progress
Italy			
CSR1	Partly implemented	Some progress	Limited progress
CSR2	Partly implemented	Fully addressed / some progress	Limited progress
CSR3	Partly implemented	Some progress	Some progress
CSR4	Partly implemented	Some progress	Limited progress
CSR5	Partly implemented	Limited progress	Limited progress
CSR6	Partly implemented	Some progress	Limited progress
Malta			
CSR1	Partially implemented	Not implemented	Some progress
CSR2	Not implemented	No progress	Limited progress
CSR3	Partially implemented	Some progress	Some progress
CSR4	Not implemented	No progress	Limited progress
CSR5	Partially implemented	Limited progress	Some progress
CSR6		Some progress	
Germany			
CSR1	Partially implemented		
CSR2	Partially implemented		
CSR3	Partially implemented		
CSR4	Partially implemented		

	2011	2012	2013
Cyprus			
CSR1	Partially implemented	Partially implemented	
CSR2	Partially implemented	Partially implemented	
CSR3	Partially implemented	Partially implemented	
CSR4	Partially implemented	Partially implemented	
CSR5	Partially implemented	Partially implemented	
CSR6	Partially implemented	Partially implemented	
CSR7	Partially implemented	Partially implemented	
Czech Republic			
CSR1	Implemented all / not addressed fully	Some progress	Some progress
CSR2	Partially implemented	No progress	Limited progress
CSR3	Partially implemented	Limited progress	No progress
CSR4	Partially implemented	Some progress	Limited progress
CSR5	Partially implemented	Some progress	Limited progress
CSR6	Partially implemented	Limited progress	Limited progress
CSR7			Limited progress

Source: ECA, based on the Commission's assessments of stability/national reform programmes.

Reply of the Commission

Executive summary

V

Detailed procedures and guidelines have been put in place regarding data quality assessment as well as the analysis and assessment of compliance under the fiscal rules. The Commission would like to stress that the EDP data reporting by Member States has been greatly refined since 2005. EDP questionnaires with a wealth of detailed additional data and information complement Member States' obligatory EDP reporting and support the Commission's data quality assessment.

The Commission does not agree with the conclusions of inadequate feedback and poor record-keeping, as material information has been properly assessed and documentation has significantly improved over recent years.

The Council recommendations and decisions implementing the Stability and Growth Pact are prepared by the Economic and Financial Committee (EFC). The Commission systematically reports to the EFC on the implementation of the SGP, in particular the EDP. In addition to the Commission's reporting to the EFC, the legal texts and accompanying Staff Working Documents (SWDs), which are publicly available, contain extensive additional information and explanations on EDP-related decisions. The members of the EFC include representatives from all the Member States, the European Commission and the European Central Bank. Minutes are kept for all the EFC meetings to record the Committee's work for present and future reference. The minutes summarise the exchange of views among members and record the decisions that were taken. The Secretariat prepares draft minutes after each meeting and circulates them to the members for their comments. The minutes are adopted at the subsequent meeting of the EFC. Members may take notes for their own use during the meetings, although unauthorised disclosure of any non-public information is prohibited.

Following the endorsement by the EFC of the draft Council documents implementing the SGP, the Secretariat of the EFC forwards the draft documents to the Secretariat of the Council. The Council recommendations and decisions are adopted by the Economic and Financial Affairs Council (Ecofin). The relevant European Commissioner participates in the meetings of the Ecofin. Minutes are also kept for all the meetings of the Ecofin.

VI

The Commission considers that transparency has recently been enhanced significantly. The Commission however does not agree that information was generally unavailable.

On the contrary, the Commission is fully committed to transparency. In the statistical field, the Commission publishes methodological advice and guidance, provided it does not breach statistical confidentiality enshrined in Council Regulation 479/2009. With the European System of Accounts, the Commission's approach is clearly rules-based and the Commission does not depart from established procedures. Applying sound judgement in line with the rules instead of a purely mechanistic approach is, however, a core task of the Commission and is the only means to properly reflect the diversity of Member States and issues at stake.

In recent years, the EU fiscal framework has undergone several changes with a view to introducing complementary rules, strengthening compliance mechanisms and raising national ownership.

The legislative changes introduced had to be technically operationalised. To this end, the methodologies and classifications utilised in assessing compliance with the Stability and Growth Pact (SGP) had to be adapted. This process took place through extensive discussions in the Economic and Financial Committee (EFC) and other competent instances of the Council. These discussions were facilitated through a series of explanatory notes. The increased complexity of the surveillance framework called for additional explanation in a spirit of transparency.

Therefore, all the approaches to the implementation of the revised framework were summarised in the Vade Mecum on the Stability and Growth Pact, publicly available on the Commission's website. The Vade Mecum will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU.

In order to further increase transparency, since spring 2014 the Commission agreed to provide Member States with all the necessary information to replicate the underlying computations related to the compliance assessment with both the preventive and the corrective arm, including detailed excel spreadsheets providing step-by-step calculations. Regarding discretionary measures, the Commission has made fully public aggregate data series on the impact of discretionary measures and the level of one-offs since spring 2014 and, in line with the Ecofin Council Conclusions of June 2014, has made further progress by sharing with the Member States the yield of key individual tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach).

VII

In relation to the implementation of structural reforms, the Commission would like to clarify that although appropriate structural reforms can play a key role in eliminating excessive deficits, their implementation is not a legally relevant component in the abrogation of an EDP.

In terms of enforcement, the focus of the legislation which governs the EDP is fiscal outcomes and, as such, the relevant legislation does not contain specific provision to enforce the implementation of structural reforms. Indeed, it is important to re-state that the assessment of effective action under an EDP is focussed on the delivery of the required budgetary adjustment and is not affected by the evaluation of structural reforms. The implementation of structural reforms, including those undertaken under an Economic Partnership Programme (EPP), is monitored in the context of the European Semester, including under the Macroeconomic Imbalances Procedure. However, the Article 9 of Regulation (EU) No 473/2013 of 21 May 2013 does not foresee specific steps in cases where the implementation of structural reforms falls short of what is recommended in the analysis of the EPP. For countries subject to specific monitoring due to the presence of excessive imbalances, the implementation of reforms is monitored under the Excessive Imbalances Procedure.

That said, at the point of examining whether an EDP needs to be opened for a given Member State, the Commission analyses carefully all relevant medium-term developments regarding the economic, budgetary and debt positions. These 'relevant factors' include the implementation of structural reforms in the context of the European Semester such as within the Excessive Imbalances Procedure. The Commission considers that a lack of implementation of structural reforms constitutes an aggravating relevant factor.

The Commission does not agree that the EDP over-emphasises the deficit dimension at the expense of debt. In particular, since the 2011 reform of the legislation known as 'the Six-pack', the breach of the debt threshold of 60% of GDP has been elevated to the trigger of the EDP. The Commission has opened a debt-based (and deficit-based) EDP for Malta in 2013, which has successfully exited the procedure in 2015. At the same time, the concept of debt diminishing at a satisfactory pace was operationalised through the debt-reduction benchmark and is now assessed as part of the Commission's regular monitoring of Member States' fiscal positions.

VIII

The Commission is committed to equal treatment of Member States. Where shortcomings in this respect have been identified, the Commission has taken action to ensure the consistent application of rules and will continue to do so.

The Commission has greatly improved transparency since 2005. In the field of EDP data and methodological questions, the Commission is publishing all mission reports, bilateral advice given to Member States and other relevant information.

While the Commission acknowledges that there has been a lack of transparency regarding the fiscal surveillance process until a number of years ago, the Commission stresses that these shortcomings have been decisively tackled in recent years through the actions mentioned above (see Commission's reply to paragraph VI), including the provision of more detailed information as well as the advance codification of the key concepts and methodologies.

IX (a)

The Commission accepts similar (while not exactly the same) recommendations made in the 'Conclusions and recommendations' section of the report (recommendations 1 to 4).

IX (a) (i)

The Commission considers the current quality assessment procedures appropriate. It will continue to endeavour to better document this work.

IX (a) (ii)

The Commission considers that control systems are assessed in the dialogue visits and in specific questionnaires.

IX (a) (iii)

The Commissions considers that the on-spot verifications are effective (fit for purpose) and would like to recall that extensive verification is also done in-house. This recommendation would not be neutral in terms of resources.

IX (b) (i)

The Commission only partially accepts the recommendation. Due to the significant and effective achievements in recent years in codifying concepts and methodologies used in the assessment of compliance with the EDP and in making available to the Member States all the calculations underpinning its assessments, transparency has already been improved. The process of independent verification will be strengthened by the recently set up European Fiscal Board as a functionally independent body comprised of five experts, tasked with assessing horizontal consistency of the decisions and implementation of budgetary surveillance.

IX (b) (ii)
The Commission accepts the recommendation. As per the Commission's reply to paragraph VII, since the 2011 reform of the legislation known as 'the Six-pack', there has been a much greater operational focus upon debt levels. In effect, the breach of the debt threshold of 60% has been elevated to the trigger of the EDP. Concretely, the Commission has opened a debt-based (and deficit-based) EDP for Malta in 2013, which has successfully exited the procedure in 2015. At the same time, the concept of debt diminishing at a satisfactory pace was operationalised through the debt-reduction benchmark and is now assessed as part of the Commission's regular monitoring of Member States' fiscal positions.

IX (b) (iii)
The Commission partially accepts the recommendation. As per reply to paragraph VII, the implementation of structural reforms, including those undertaken under an Economic Partnership Programme (EPP), is monitored in the context of the European Semester, including under the Macroeconomic Imbalances Procedure. However, Article 9 of Regulation (EU) No 473/2013 of 21 May 2013 does not foresee specific steps in cases where the implementation of structural reforms falls short of what is recommended in the analysis of the EPP. For countries subject to specific monitoring due to the presence of excessive imbalances, the implementation of reforms is monitored under the Excessive Imbalances Procedure. The Commission considers that it already operates to the full extent of the powers available to it under the legislation.

IX (b) (iv)
The Commission partially accepts the recommendation on its obligations relating to Member States' reporting as the use of the infringement procedure should be assessed against the requirements of the EDP.

IX (b) (v)
The Commission does not accept the recommendation as the stepping-up of the EDP and the imposition of sanctions are governed by clear legal rules and processes which the Commission is bound to follow. The Commission will continue to recommend the Council to impose sanctions where appropriate in line with the legislation.

Introduction

10
The description of Eurostat's assessments is in fact more complex. Eurostat's assessments also include other tools/steps, such as internal consistency/plausibility checks (both within EDP data and between EDP and GFS data), checks of the quarterly data, etc.

16
The Council sets annual fiscal targets for multi-annual EDPs, while the Commission may make recommendations in that regard. In terms of structural fiscal measures, the Six-Pack and Two-Pack include specific requirements on medium-term fiscal planning. In particular, the Directive on Budgetary Frameworks (part of the Six-Pack) lays out (in chapter V) requirements on Medium-Term Budgetary Frameworks, including procedures for setting multi-annual objectives for fiscal aggregates, medium-term policy projections, and assessment of long-term impacts, while ensuring consistency between annual budgets and multi-annual figures. The Two-Pack also calls for the presentation of national medium-term fiscal plans based on independent forecasts.

20
The Commission notes that Member States have an obligation to report also on the measures planned and/or adopted and on developments in their fiscal and economic situation.

Observations

Reply to the heading above paragraph 32
The framework has undergone several changes in recent years with a view to improving the quality of the EDP data, introducing complementary rules, strengthening compliance mechanisms and raising national ownership. The budgetary surveillance system in the EU has become thus more complex. This complexity has arisen partly from a desire to better capture the economic reality.

The legislative changes introduced had to be technically operationalised. To this end, the methodologies and classifications utilised in assessing compliance with the Stability and Growth Pact (SGP) had to be adapted. This process took place through extensive discussions in the Economic and Financial Committee (EFC) and other competent instances of the Council. These discussions were facilitated through a series of explanatory notes. The increased complexity of the surveillance framework called for additional explanation in a spirit of transparency.

Therefore, all the approaches to the implementation of the revised framework were summarised in the Vade Mecum on the Stability and Growth Pact, publicly available on the Commission's website. The Vade Mecum will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU.

In order to further increase transparency, since spring 2014 the Commission agreed to provide Member States with all the necessary information to replicate the underlying computations related to the compliance assessment with both the preventive and the corrective arm, including detailed excel spreadsheets providing step-by-step calculations. Regarding discretionary measures, the Commission has made fully public aggregate data series on the impact of discretionary measures and the level of one-offs since spring 2014 and, in line with the Ecofin Council Conclusions of June 2014, has made further progress by sharing with the Member States the yield of key individual tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach).

35
The Commission would like to point out that all relevant documents, including the Code of Conduct and the Vade mecum on the Stability and Growth Pact and the Code of Conduct, as well as other relevant explanatory documents on the functioning of the Stability and Growth Pact are available on the DG ECFIN website http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm.

41
The Commission points out that the process is already fully transparent vis-a-vis all concerned Member States. The Commission services provide the necessary details on forecasting assumptions.

42
While the documentation, notably including the country desks assumptions (to be distinguished from the common external assumptions mentioned above) is undoubtedly complex, it has significantly improved in recent years and complies with good practices.

45
The Commission underlines that the assumptions underlying the forecasts are described in the Position Paper that is produced at the beginning of each forecast round. The assumptions are then updated ahead of each subsequent forecast storage, and they are published in each forecast. Several meetings during the preparation of the Commission's regular forecasts bring together country desk officers, experts from horizontal units and top management. The discussion of the assumptions underlying the forecasts is a key part of these meetings.

48
Eurostat considers that the quality assessments are done in a consistent manner. The in-house verification is underpinned by ESA 2010 and the Manual on Government Deficit and Debt.

Moreover, the consistency of Eurostat's assessments is ensured by explicit and highly centralised internal procedures. This includes procedures for analysing and deciding on methodological issues, including in-house methodological meetings, official advice, or findings from EDP visit.

Box 2 – First indent
The Commission is always and systematically basing its assessment on evidence. This can take various forms, like full documentation on the particular issue provided by Member States, discussions during the dialogue visits and further explanations in the regular and continuous exchanges with Member States. Moreover, major issues are documented in the EDP Inventory. Overall, classification issues are clarified in comprehensive assessment process.

Box 2 – Fourth indent
Eurostat is not making systematic or detailed analysis of the bridge tables for the purpose of EDP. The bridge tables detail all GFS transactions reported in the ESA transmission programme and are generally not relevant for EDP data. Where it is important, Eurostat may look at a bridge table for clarification.

49
The Commission does receive mandatory data, which it considers necessary for the purpose of its quality assessment. For technical reasons, data in EDP tables may not be fully complete, which is usually justified by the data sources and collection system in the specific country, described in the EDP inventory. For example, in the spring notification data on the year n-1 is reported for the first time, but not all data sources might be available at that time, making estimates necessary.

50
The Commission consistently applies the rules and guidelines across Member States. The Commission underlines that the delimitation of general government is enshrined in the legal framework. ESA, underpinned by the MGDD, specifies the criteria for sector classification, including a very detailed decision tree (which is consistently applied).

In addition, for the purpose of checking the delimitation of general government, Eurostat has at its disposal the register of government entities, the EDP Inventory, the questionnaire on government controlled entities classified outside government (available since 2011) and documents on reclassifications requested before EDP visits.

Moreover, the issue of the delimitation of government is one of the central topics in each EDP visit and thus covered in the mission findings.

Finally, these records are up to date as all Member States are obliged to report on an annual basis the list of government controlled entities, including information on their NACE classification, liabilities and for the entities with largest debt the results of the latest market/non-market tests.

Comments on Annex III are provided below.

51
The Commission does ensure that Member States apply ESA. To this end, and to ensure consistent treatment across cases and Member States as well as to close possible interpretation gaps, Eurostat has been providing guidance through the MGDD. The Commission would like to clarify that Eurostat and its Director-General have sole responsibility for statistical decisions according to Regulation 223/2009.

Regarding the time spans used for analysing and classifying public units, the Commission considers differences not only as legitimate but necessary as they reflect different legal, administrative or business arrangements.

Box 3 – First indent

When it comes to completeness of registers and the analysis of each single entity, Eurostat has exceptionally agreed that in Member States having thousands (or tens of thousands) of smaller entities at local government level, the market-non-market test can be done at group level. For large and complex units, a detailed analysis is conducted at unit level (and not on a group basis). Eurostat has also agreed on a prudent approach in another Member State. It is the most cost-effective approach in a context of limited resources both in NSIs and in Eurostat.

Eurostat cannot check individually every single unit in Member States. Eurostat checks annually the information provided in the questionnaire of government controlled entities classified outside general government, and any other material at hand.

Furthermore Eurostat agrees on reclassifications in benchmark revisions provided that there is no or negligible impact on deficit and debt data.

Box 3 – Second indent

The Commission considers the ESA95 rules have been respected in the examples included.

Just to take the first example in this section (it applies to all examples, just for the sake of efficiency), it is said in Annex III:

'one Member State classified the supervisory unit for financial markets, which is an institutional unit, within the general government sector. According to ESA 95, units of this kind should be classified outside the general government sector (namely, as financial auxiliaries within the financial corporations sector). Other Member States correctly classified these institutional units outside general government'.

However, supervisory units for financial markets can be classified in general government. In addition, it puts into question the methodological treatment agreed by experts in Member States and Eurostat.

Box 3 – Third indent

Eurostat recommends Member States to analyse and reclassify units every year. This is currently the case for all units having a debt larger than 0.01% of GDP and all Member States are moving towards a more frequent annual reclassification schedule also for smaller units.

The Commission collects annually the Questionnaire on Government Controlled entities and analyses it to check if all units continue to satisfy the 50% test.

53

The Commission uses its risk analysis to select Member States and topics for its dialogue visits. High-risk topics have always been included in the agenda for both Upstream Dialogue Visits (UDV) and Standard Dialogue Visits (SDVs) (either coming from the risk assessment or from other sources). Apart from the general high-risk issues which are always part of the mission agendas, specific issues based on risks are also included. After UDVs were incorporated in SDVs, the results have been used to identify risky areas which were then addressed during a dialogue visit. Eurostat considers that it has addressed high risk issues in a visit (e.g. for Italy, the discussions on the recording of GFCF on a cash basis was the result of the risk assessment of 2012).

While in the past there was no justification for marking a change, in the form of a comment, this practice has already been changed and comments are now mandatory.

While the EDP risk assessment exercise is well documented, throughout the annual process, it has been voluntary to provide specific comments on each dimension of the risk assessment exercise. Eurostat agrees that changes in the risk level require more detailed reasoning and comments to be put in writing.

54

Eurostat considers that the duration of the visits is sufficient to adequately examine data quality issues. If needed, Eurostat has the possibility to prolong the visits or make follow-up visits. The Commission considers the 'number of topics' is one criterion, but the complexity of an issue and/or the potential impact on EDP data are also important.

The Commission underlines that the dialogue visit is not a stand-alone tool to examine data quality issues. The dialogue visit is rather intended to *identify risks or potential problems about the quality of the reported data* (Council Regulation 479/2009), whilst the data is assessed biannually in April and October. All dialogue visits are followed up and complemented by the regular assessment work and vice versa.

55

Institutional arrangements and supervisory and control systems have been part of both UDV and SDV agendas, and there is a section in all agendas for visits in order to deal with these issues. In addition, a dedicated questionnaire on these issues was launched in 2012. Finally, additional information on institutional arrangements is provided via the 'peer review' exercise conducted on NSIs, the EDP inventories, and the memoranda of understanding signed by the national institutions on EDP.

The Commission agrees to analyse how this issue could be further documented in the future.

56

It should be pointed out that this observation is calculated using the most extreme cases instead of averages, which would be more appropriate (Figure 6). Those 'extremes' have justification in most cases: for example in the case of Germany the 2013 EDP upstream dialogue visit to Germany comprised two meetings of Eurostat with the national authorities. After each meeting provisional findings and action points were drafted, however, the final joint report with the main conclusions and recommendations was prepared once the entire two-part visit had been completed, i.e. following the second meeting. The same reasoning is valid for the Czech Republic: in 2012 the UDV was sent after 14 weeks but was only published after 25 weeks, together with the SDV findings.

Action points are agreed between Eurostat and the MSs in and after the dialogue visit, and they are transmitted to the Member State the week after the visit (so they are extremely punctual). Member States commit themselves by agreeing with Eurostat both on content and the deadline. Depending on the nature of the action and whether it has an impact on the deficit and debt data, deadlines are set and closely monitored before each EDP notification. The list of pending action points is revised at each visit. There are some action points which, because of institutional arrangements needed in the country or the need to implement new data collection systems, take more time to be implemented. In addition, action points are included in the reports of the visits, which are publicly available on the website of Eurostat.

Action points with impact on the reported deficit and debt data are taken into account in the quality assessment. Unresolved actions points on issues with a material impact on deficit and debt may also lead to a reservation.

57 (b)

Methodological issues are regularly discussed with Member States experts in the EDP statistics working group twice per year.

In addition, Eurostat has chaired in recent years a task-force on the MGDD which meets two-three times per year in order to agree on an updated version of the Manual.

58

Eurostat's policy is to publish all advice given to Member States. However, in case a Member State objects to publication due to confidentiality (for example, because it contains business-sensitive information as guidance is very often on specific cases, or because the operation will not take place after the guidance), Eurostat accepts this.

Eurostat agrees with this observation and, in this context, it is prepared to discuss with Member States how to communicate on advice given, without violating confidentiality. It has already started this process by including information on advice given in the latest report to the EFC.

59
The ability to correctly identify 'one-off'' measures, as defined in the Stability and Growth Pact, is crucial for carrying out fiscal surveillance. Specific guidance, including an indicative and open list of 'one-off' measures was developed in the wake of the 2005 reform of the Stability and Growth Pact, and published in the 2006 Report on Public Finance in the EMU (see Report on Public Finances in EMU 2006: '*Definition and identification of one-off and temporary measures*', Section II.4.2, available at: http://ec.europa.eu/economy_finance/publications/publication423_en.pdf). The Commission has since been using this guidance as a point of reference for its surveillance activities. The 2006 guidance has been recently extended with the establishing of 'guiding principles' and the update of the list of 'typical' examples. This re-vamped guidance has been published in the 2015 Report on Public Finances in the EMU: '*One-off measures – classification principles used in fiscal surveillance*', Section II.3 (published in December 2015), available at: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip014_en.pdf).

60
The definition of one-off measures, as well as an indicative and open list of 'typical' cases has been published on the Report on Public Finances in EMU 2006: 'Definition and identification of one-off and temporary measures', Part II, Section 4.2., available at: http://ec.europa.eu/economy_finance/publications/publication423_en.pdf.

The Commission points out that it has recently extended the guidance and published the classification principles used in the identification of 'one-off' measures, as well as an indicative list of 'standard' cases in the Report on Public Finances in EMU 2015: '*One-off measures – classification principles used in fiscal surveillance*', Section II.3 (published in December 2015), available at: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip014_en.pdf).

It should be emphasised, however, that expert judgement is always required, as the characteristics of each individual measure need to be examined carefully on the basis of the classification principles applied by the Commission.

Box 4
Following the list updated in December 2015 (subsequent to the Court's audit) of 'standard' cases of 'one-off' measures, as published in the Report on Public Finances in EMU 2015: '*One-off measures – classification principles used in fiscal surveillance*', Section II.3, Box 4 does not reflect the current situation.

Deficit-increasing measures
The Commission underlines that the budgetary costs of such exceptional events tend to be larger relative to the size of the economy in smaller countries.

61
The Commission points out that in order to be able to better capture the economic reality, the commonly agreed rules of the SGP include provisions designed to respond to and accommodate unanticipated developments and unexpected events. Its operationalisation has been defined in the Note for the Alternates of the Economic and Financial Committee: '*Improving the assessment of effective action in the context of the Excessive Deficit Procedure – a specification of the methodology*', of 12 June 2014.

62
The Commission recognizes that the concept of 'unexpected adverse economic events' has not been definitively set out in advance. However, the methodology for assessing effective action, as detailed in the note for the alternates of the Economic and Financial Committee: '*Improving the assessment of effective action in the context of the Excessive Deficit Procedure – a specification of the methodology*', of 12 June 2014, made clear that lower growth than in the forecast underlying the EDP recommendation typically represents a case of an 'unexpected adverse economic event'.

Therefore, the Commission does not agree with the Court's observation in relation to France[1].

The Council opened the EDP for France on 27 April 2009 with an initial deadline in 2012. This deadline was extended to 2013 on 2 December 2009 and to 2015 on 21 June 2013 based on the finding that effective action had been taken but that unexpected adverse economic events with major unfavourable consequences for government finances had occurred.

The Commission applied the existing legal framework, as explained in the recommendations of 2009, 2013 and 2015, and the accompanying SWDs.

Reply to the heading above paragraph 63
The Commission would like to stress that the basis for data quality assessment has greatly improved, given EDP data reporting by Member States has been greatly refined since 2005 and supplemented by detailed additional data.

While the Commission agrees that there was traditionally a greater focus upon the deficit than the debt in the implementation of the SGP, the Commission underlines that gross government debt and its sustainability have always been taken into account as a relevant factor in the Reports under Article 126(3).

Since the 2011 reform of the legislation known as 'the Six-pack', there has been a much greater operational focus upon debt levels. The breach of the debt threshold of 60% of GDP has been elevated to the trigger of the EDP and. the concept of debt diminishing at a satisfactory pace was operationalised through the debt-reduction benchmark and is now assessed as part of the Commission's regular monitoring of Member States' fiscal positions.

1 http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/france_en.htm

64

Council Regulation 479/2009 provides the general framework for expressing reservations on the quality of the actual data and amending the actual data reported by Member States. According to this regulation, Eurostat may use such powers if there is evidence that the data reported by Member States do not comply with the accounting rules and, in particular, with the EDP methodology.

Reservations are expressed by Eurostat only in exceptional cases and are justified only under certain conditions. Eurostat uses its professional judgement on this. However, the lack of a specific reservation or amendment does not mean that there are no on-going issues to be resolved with the Member State, but that Eurostat considers these issues to have no significant impact on Maastricht deficit and debt. The alternative would be to place reservations on all countries in every notification exercise, which would be disproportionate and would not serve the purpose of reservations.

In addition, it often happens that Member States adapt their data following questions raised by Eurostat during the clarification period. Such adaptations are not visible in the final press release as no reservation or amendment by Eurostat has been made.

65

Eurostat has a procedure specifying the steps, timetable and role of each actor during the analysis of the notifications prior to the press release. This procedure includes regular meetings with senior management and with the Director General, acting as the Chief Statistician of the European Union.

Reservations or amendments to the data are based on professional judgment, on the basis of the qualitative and quantitative information available before and during the clarification process, and they are reflected upon very carefully, as mentioned above. This process is done on a statistical basis only, using the statistical authority provided to Eurostat for this purpose and without any interference from other Commission services or from any other external body.

Subsequent revisions to the data have proved, as a matter of principle, that Eurostat's approach for reservations is efficient and effective: 'no big surprises', i.e. when an issue was known but Eurostat decided that putting a reservation was not warranted, no significant revisions to deficit or debt data were necessary.

Box 5

Czech Republic – First indent

Since 2010 the market/non-market test is carried out each year for public non-financial corporations and also for non-profit institutions classified in S.15. The results of the test are presented to Eurostat in the Questionnaire on government controlled entities classified outside general government or in a list of government units which is requested before the EDP dialogue visit.

France – First indent
The treatment of decommissioning of nuclear facilities and possible related lump sum payments is still under discussion (even under ESA 2010). Until an agreement is reached, there is currently no specific guidance for the treatment of nuclear decommissioning and related lump sum payments.

France – Second indent
Due to the very high number of government units in France (more than 80,000 units in S.13 and more than 8000 government controlled entities classified outside government), Eurostat has agreed with the grouping of units at local government level.

Eurostat cannot set reservations on an issue for which there are no rules in the ESA or MGDD.

Germany – First indent
No major, regular reclassifications of units with material impacts on government deficit and debt ratios (i.e. at close to or over 0.1% of GDP), occurred in the years 2011-2013. Hence, the size of related revisions would not have impacted on government deficit and debt ratios compiled for the purpose of the fiscal surveillance.

For all reclassifications undertaken in the context of: 1) one-off methodological revisions, 2) the 2011 benchmark revision of the German national accounts and 3) changeover to the ESA 2010, for which impacts on government deficit and debt figures were substantial (at close to or over 0.1% of GDP) the data for the whole of the EDP reference period was properly revised.

Germany – Second indent
The matter in question constitutes a risk to the data quality and, as provided for under Council Regulation 479/2009, once it had been identified it was addressed by Eurostat, taking stepwise approach given the complexity of the German statistical system and size of the German general government sector.

The Commission is not aware that the risk in question has materialised. No related quality problems have been identified by Eurostat on the basis of the data assessment.

Within the complex statistical system in Germany, legal mandate underpinning the regular collection of statistical data collection, and limited resources, the process of implementation of relevant procedures for outstanding – small in terms of size – individual operations at state and local level requires a structural solution.

Given the size of the transactions and the fact that no conclusions about the outcome of the analysis can be drawn at this stage, the Commission does not consider that a reservation on these grounds should have been put on the German deficit data.

Malta – First indent
The novation agreement to transfer the legal ownership of the project to Malita was signed on 28 December 2011 (amended in February 2012) and thus after the October 2011 EDP notification. Likewise, the leasing arrangements were signed on 26 June 2012, also well after the October 2011 EDP Notification.

In the April 2012 EDP notification, the Maltese National Statistical Office had correctly treated all relevant points. In its letter of August 2012, Eurostat confirmed after thorough analysis that Malita should be classified within the non-financial corporations sector.

Therefore the Commission considers that no reservation was necessary.

Italy – First indent
The Commission (Eurostat) has been following progress on this issue closely. A step by step approach, including setting up of new data sources and making estimates, has been implemented by Italy.

Box 6

The Court refers to the basic macroeconomic assumptions underlying the deficit and debt thresholds stipulated in the Treaty. While the macroeconomic environment is subject to change, the Commission remains obliged to operate as per the provisions of the Treaty and the secondary legislation which supports it.

The overall fiscal framework has evolved significantly, not least due to the reforms introduced through the Six-pack and the Two-pack in recent years, with the goal of delivering ‘smart rules’ that allow to react to and accommodate better the prevailing economic realities.

While there was traditionally a greater focus upon the deficit than the debt in the implementation of the SGP, the Commission underlines that the framework has consistently addressed the issue of debt. In particular, it should be recalled that the component of the Medium-Term Budgetary Objective related to implicit liabilities and debt (MTO^{ILD}) has a built-in element representing the budgetary balance that would stabilise the debt ratio at 60% of GDP and a complementary component representing the additional budgetary balance necessary for countries with debt exceeding 60% of GDP.

Since the 2011 reform of the legislation known as ‘the Six-pack’, there has been a much greater operational focus upon debt levels. The breach of the debt threshold of 60% of GDP has been elevated to the trigger of the EDP and the concept of debt diminishing at a satisfactory pace was operationalised through the debt-reduction benchmark and is now assessed as part of the Commission’s regular monitoring of Member States’ fiscal positions.

70

The Commission points out that the initial level of debt enters into the definition of the debt-reduction benchmark through the differential to the 60% threshold.

For Member States with debt above 60% of GDP, the recommended adjustment path has to take into account the need for the debt to comply at least with the forward-looking debt benchmark at the end of the correction period. As a result, the level of the deficit recommended for the final year may be below 3% of GDP and, in case of heavily indebted Member States, the deadline for correction may be longer as the magnitude of the structural adjustment to be delivered needs to be weighed against its feasibility under a certain number of years.

The fact that, in order to meet the debt benchmark, the public deficit must be brought below 3% of GDP has been reflected in the EDP recommendations issued so far based on breach of the debt criterion.

71

The Commission notes that the projections quoted are on an unchanged-policy basis. Assuming a scenario where Member States fully respect their obligations under SGP would give more positive results.

Specifically under a scenario of full compliance with the SGP, Italy would respect the debt reduction benchmark (forward looking variant) by 2019 and France by 2018. The IMF data used for Cyprus present a significant discrepancy with those used by the Commission.

72

The analysis of relevant factors is conducted in line with the requirements of the Council Regulation (EC) No 1467/97.

The legislation indeed provides a broad list of possible relevant factors which is not exhaustive, since it requires the Commission to also consider factors deemed relevant by the Member State concerned.

The Commission specifies and to the extent possible quantifies the effect of the different relevant factors. There is no formula weighting all the different factors which leads to an automatic conclusion. The Commission publishes its detailed analysis in the Staff Working Documents.

73

The Commission does not agree with the assertion that the reasoning behind its conclusions is unclear. The analysis of relevant factors is provided for in the legislation (Council Regulation (EC) No 1467/97) according to which the Commission shall take into account all relevant factors in so far as they significantly affect the assessment of compliance with the deficit and debt criteria. Moreover, the legislation requires the Commission to also consider factors deemed relevant by the Member State concerned. This is done in order to ensure an appropriate economic assessment of the situation before deciding on the opening of an EDP.

In case of a breach of the deficit criterion, the legislation provides a broad list of possible relevant factors, which however is not exhaustive, nor makes reference to any kind of prioritisation. If the general government debt is above 60% of GDP, the relevant factors will only be considered in the decision regarding whether to launch an EDP if the deficit remains close to the reference value and the breach is judged to be temporary.

In case of a breach of the debt criteria, all relevant factors can be taken into account irrespective of the level of the deficit.

In line with the provisions described above, when preparing a report under Article 126 (3), the Commission specifies and to the extent possible estimates the effect of the different relevant factors.

In this respect, the Commission points out that in the reports under Article 126(3) that have been issued on Italy, Belgium (February 2015) and Finland (February, May and November 2015) significant efforts have been put in place to make the analysis of the relevant factors much more extensive and transparent than in the past.

At the same time, and in line with the spirit of the legislation, there is no formula weighting all the different factors leading to an automatic conclusion.

74

The Commission endeavours to work closely with Member States in the ongoing process of the implementation of the Stability and Growth Pact, including the EDP. A crucial element of this cooperative approach is the interaction and discussion facilitated through the relevant economic committees, in particular, the Economic and Financial Committee Alternates (EFC-A). The Commission regularly prepares analytical and operational notes for the EFC-A in order to explain to Member States the approach it is taking to interpreting and implementing the SGP and obtain their input on the Commission’s rationale.

In order to increase transparency, since spring 2014 the Commission has provided Member States with all the necessary information for them to fully replicate the computation of the effective action assessment thus including detailed excel spreadsheets providing step-by-step calculations of both the top-down and bottom-up approach. Beside this, all of the data and computations on compliance with the debt-reduction benchmark and the MLSA are provided to Member States. However, based on a specific request from the Member States, data are not fully public, but shared via a common platform named CIRCA, to which only the members of the EFC and their alternates are granted access.

75

The Commission acknowledges that the staff working documents published before February 2015 could have been more transparent regarding the data included in the baseline scenario underlying the EDP recommendations. However, the Commission points out that such information was available from spring 2014 in the detailed excel spreadsheet providing step-by-step calculation of the Commission's compliance assessment and circulated to Member States through the CIRCA platform. As a consequence, Member States enjoyed full access to the set of data needed to replicate the calculations of the fiscal efforts and the other variables underlying the assessment of compliance with the EDP recommendation as in the case of France in February 2015. Moreover, starting in February 2015, the relevant information is provided in the forecast files published in the public version of AMECO database and accessible to the general public.

The information contained in these files is sufficient to replicate the calculation of the bottom-up effort as computed by the Commission. It notably includes the total amount of discretionary measures on the revenue side (including and excluding one-offs), expenditure developments, interest rates developments and unemployment figures. These are the only metrics needed to compute the baseline scenario. In addition, the staff working document clearly explains how the baseline scenario is built.

76

The Commission points out that in case of a breach of the debt criteria, the Regulation stipulates that all relevant factors shall be taken into account irrespective of the level of the deficit.

Box 7 (i)

The Commission considers that the cyclically adjusted debt-reduction benchmark does not fully capture the impact of very low inflation over extended periods. While the cyclically adjusted debt level is developed with the aim of excluding the influence of the economic cycle on the assessment on compliance with the debt rule, it is worth emphasizing that the adjustment only corrects for the difference in the potential and the actual GDP growth rate over three years. Therefore, the protracted subdued nominal GDP growth experienced by several Member States in the last couple of years can still impact the compliance with the debt rule even when assessed on the basis of the cyclically adjusted debt level. In addition, the debt benchmark does not control for the evolution of prices. The cyclically adjusted debt level uses the outturn GDP deflator, i.e. there is no correction for unexpectedly low inflation. However, for several countries the unexpected lowering of inflation has led to a significant increase in the real financing costs on debt. The increase in difference in the real financing cost and the real GDP growth rate had a substantial negative impact on the debt dynamics for several countries.

Box 7 (ii)
Regarding Italy's compliance with the debt-reduction benchmark, the Commission underlines that it could not yet carry out an assessment regarding 2016 when the 126(3) report was produced in early 2015.

Before an assessment for the next year can be made, a legally valid Council requirement has to be set. Council recommendations are given in spring. For Member States in the preventive arm of the SGP, such requirements are set on the basis of the cyclical position of the economy of the Member State concerned (as measured by the output gap) and its sustainability risks (details are found in the Commission Communication on Flexibility of January 2015 which is available at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

The first assessment of compliance for 2016 was done in spring 2015 and pointed to broad compliance with the requirements. Details can be found in the relevant SWDs available at http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/italy_en.htm.

Box 7 (iii)
The Commission underlines that a methodological framework for assessing the impact of structural reforms upon fiscal sustainability was outlined in a note provided to Member States through the EFC-A in February 2015. In the assessment of Italy's Stability Programme, carried out in May 2015, the Commission stated that it had carried out an assessment of the potential impact on public finance sustainability of the structural reforms plan put forward by the authorities and that given the methods used to simulate their effects (in particular QUEST) the quantified impact of the reforms was assessed by the Commission to be plausible.

78
The Commission acted in full compliance with the rules. The obligation (rather than possibility) of taking into account relevant factors is explicit in the Regulation, which refers to the non-exhaustive lists of factors to be considered. Among these, the adjustment toward the MTO, the implementation of policies to prevent and correct imbalances and the implementation of policies in the context of the common growth strategy of the Union are explicitly mentioned.

The debt rule does not automatically imply that a Member State is put in EDP once the quantified target is missed. This non-automaticity is explicitly foreseen in the Regulation.

80
The Commission considers that the measure concerned should not be classified as a one-off in line with the guiding principles updated in the 2015 Report on Public Finances in EMU in order to ensure their consistent application. According to this guidance, the surcharge was, intrinsically, of neither a temporary nor non-recurrent nature – it was expected to have a durable impact (from 2012 to 2017) – and, as a result, could not have been classified as a one-off. The 2015 Report on Public Finances is available at: http://ec.europa.eu/economy_finance/publications/european_economy/public_finances_emu_en.htm

81
On 10 March 2015, the Council considered that the available evidence did not allow concluding on no effective action as the cumulated fiscal effort was found to be in line with the level required by the Council (based on the bottom-up methodology, the top down being impacted by low inflation) and that an extension of the correction deadline was therefore warranted. Moreover, the outturn data (and also the Commission 2015 spring forecast on the headline balance for 2015) was better than expected by the Commission in March 2015.

82
The Commission does not agree with this observation as according to the information available at the time of the assessment, a timely correction by 2015 appeared no longer within reach. In such circumstances, it is appropriate within the legal framework of the SGP: (i) to investigate the causes for this, which resulted in the finding that 'overall the available evidence does not allow concluding that the recommended effort has not been delivered in 2013 – 2014', and (ii) to provide a new, valid adjustment path in order to provide adequate policy guidance to the country concerned.

83
The Commission recalls its obligation under the Regulation to take account of the relevant factors. The legislation sets out a non-exhaustive lists of factors to be considered. Among these, the adjustment towards the MTO, the implementation of policies to prevent and correct imbalances and the implementation of policies in the context of the common growth strategy of the Union are explicitly mentioned.

For the reasoning applied in the specific cases, the relevant documents are available at http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/france_en.htm and http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/italy_en.htm for France and Italy respectively.

84
The Commission underlines that according to the legal framework, the Council is the decision-making institution. Therefore, it has the right to overrule the Commission's EDP recommendation and it is not liable to the Commission.

Member States' reporting on corrective action could be improved

The Commission considers that the existing provisions and/or guidelines on the content of fiscal surveillance documents, including on reporting on EDP corrective action, provide a solid basis for the Commission to pursue effective fiscal surveillance and monitoring if adequately followed by the Member States. The Commission therefore does not see any specific need to change existing legislation in order to impose stronger reporting obligations on the Member States.

85

To enforce compliance with reporting requirements, the possibility for sanctions under the EDP is limited to non-compliance with the EDP budgetary targets. However, a lack of adequate reporting can be to the disadvantage of the concerned Member State as a lack of sufficiently detailed information made available to the Commission on action taken and budgetary developments could potentially lead to the stepping up of the EDP if this leads to the conclusion that the EDP targets are not met.

In any event, the Commission engages in continuous monitoring of Member States' fiscal positions through the relevant country-desks, which engage in regular surveillance missions to the Member States. In relation to more regular reporting, such as that introduced under the Six-pack and Two-pack through the stability programmes in the spring and draft budgetary plans in the autumn, there are detailed requirements set out regarding what a Member State is obliged to report. According to Article 7(2) of Regulation 473/2013, in the case where the Commission is not satisfied that a Member State's DBP adequately demonstrates its fiscal plans to be in compliance with its requirement, the Commission may request that the Member State concerned re-submit its DBP. However, where the Member State does not comply with the more general reporting requirements, it is true that the Commission's options for enforcement are limited, in particular concerning the stability programmes.

86

Fiscal surveillance documents (such as the Stability and Convergence Programmes or the Draft Budgetary Plans) including those reporting on compliance with the Council recommendations (reports on action taken), may sometimes lack concrete information on corrective measures, notably for the outer years. This is reflected in the Commission forecasts, which form the basis of the risk assessments of the Member States' plans. Indeed, in cases where the corrective measures are considered to be insufficiently specified, they are not taken into account in the forecast. Furthermore, if the lack of concrete information weights on the balance of risks, risks are always clearly mentioned in the Commission assessments.

Box 8 – First indent

The list of measures with fiscal impact is part of the convergence programme and not primarily the national reform programme.

Box 8 – Second indent

The Commission highlights the fact that convergence programme 2012 presents the impact of measures in three separate tables – one from the perspective of direct tax reform (revenue side measures), the second providing a detailed breakdown of planned consolidation measures with an impact on the deficit and the third summarizing smaller changes valid since 2012 (only expenditure side). Although not every single measure is described in the accompanying text, the titles are sufficiently detailed and understandable.

Reply to the heading above paragraph 88

The Commission does not agree that its monitoring and surveillance lack transparency. The EU fiscal framework has undergone several changes in recent years with a view to introducing complementary rules, strengthening compliance mechanisms and raising national ownership. The Commission considers this a welcome development.

The legislative changes introduced had to be technically operationalised. To this end, the methodologies and classifications utilised in assessing compliance with the Stability and Growth Pact (SGP) had to be adapted. This process took place through extensive discussions in the Economic and Financial Committee (EFC) and other competent instances of the Council. These discussions were facilitated through a series of explanatory notes. The increased complexity of the surveillance framework called for additional explanation in a spirit of transparency.

Therefore, all the approaches to the implementation of the revised framework were summarised in the Vade Mecum on the Stability and Growth Pact, publicly available on the Commission's website. The Vade Mecum will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU.

In order to further increase transparency, since spring 2014 the Commission agreed to provide Member States with all the necessary information to replicate the underlying computations related to the compliance assessment under both the preventive and the corrective arm, including detailed excel spreadsheets providing step-by-step calculations. Regarding discretionary measures, the Commission has made fully public aggregate data series on the impact of discretionary measures and the level of one-offs since spring 2014 and, in line with the Ecofin Council Conclusions of June 2014, has made further progress by sharing with the Member States the yield of key individual tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach).

The methodological framework for assessing the impact of structural reforms upon fiscal sustainability was outlined in a note provided to Member States through the EFC-A in February 2015.

89 (ii)

The Commission would like to clarify in relation to the Court's observation 89 (ii) that the effective action methodology, which was endorsed by the Council in 2014, is wider-ranging than just the bottom-up methodology, also incorporating a top-down approach to assessing effective action. The methodology is explained in Part II.1 of the Public Finance Report 2014.

90

The compliance with EDP recommendations is ultimately checked using actual data, verified by Eurostat, rather than the Commission's forecasts. Moreover, an assessment of effective action, known as a careful analysis, is conducted if the Member State fails to meet either its headline deficit targets or required improvement in the structural balance.

Box 9 – Sixth indent

The Commission broadly agrees that the assessment of effective action has become increasingly complex. It takes better account of more complex economic situations as well as adding new surveillance elements, ensuring equality of treatment across countries and time required transparent operationalisation of the rules (see Commission's reply to paragraph 89).

91

The top-down and bottom-up approaches are the reflection of the need to better capture prevailing economic situations. The note reviewing the methodology on the effective action assessment, including the operationalization of the bottom-up approach (Review of the methodology for assessing effective action) was first discussed on 26 February 2014 at the EFC-A, approved by the EFC on 12 June 2014 and endorsed by the Ecofin Council on 20 June 2014.

The Commission recognises that there is a natural trade-off between defining the approach taken as much as possible in terms of capturing the underlying macroeconomic situation and developments, and the degree of complexity of the system of rules.

In order to increase transparency, the Commission agreed to provide Member States with all the necessary information for them to replicate the computation of the effective action assessment including detailed excel spreadsheets providing step-by-step calculations of both the top-down and bottom-up approach. However, following a specific request from the Member States, these data are not fully public, but shared via a common platform named CIRCA, to which only the members of the EFC and their alternates in the Ministries are granted access.

92

The assessment of the fiscal effort is centred around the structural balance since the 2005 reforms of the SGP, which sought to better take account of the effect of the economic cycle on Member States' fiscal positions. It is true that the structural balance is intrinsically linked to estimates of potential growth, which is an unobservable variable. This reflects the limits of macroeconomics and cannot be escaped as long as the structural balance remains a key element of fiscal measurement as mandated by the Regulation.

A detailed common approach to estimating potential output is agreed with Member States through the long-standing Output Gap Working Group and endorsed by the Council.

94
The Code of Conduct suggests that a ‘bottom-up’ estimation of the fiscal effort (that is, one that typically focuses on the estimated budgetary impact of discretionary fiscal measures) should complement the estimation of the fiscal effort yielded by the change in the structural balance (or ‘top-down’ approach). The note reviewing the methodology on the effective action assessment, including the operationalization of the bottom-up approach (Review of the methodology for assessing effective action) was first discussed on 26 February 2014 at the EFC-A, approved by the EFC on 12 June 2014 and endorsed by the Ecofin Council on 20 June 2014.

This methodology builds on the estimated budgetary impact of discretionary measures on the revenue side and takes into account both explicit and implicit measures on the expenditure side.

In terms of discretionary measures, the Commission has ensured a concrete follow-up to its transparency commitments by (i) making available for each country the impact of discretionary measures (current/capital revenue as well as current/capital expenditure) and the level of one-offs in the AMECO database online (i.e. the fully public Commission database) since spring 2014 ii) sharing with the Member States through the CIRCA platform, the main discretionary tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach).

95
The Commission does not agree that its analysis have become less transparent.

The EU fiscal framework has undergone several changes in recent years with a view to introducing complementary rules, strengthening compliance mechanisms and raising national ownership. The rule were also made more apt to deal with differing economic conditions.

The legislative changes had to be technically operationalised. To this end, the methodologies and classifications utilised in assessing compliance with the Stability and Growth Pact (SGP) had to be adapted. This process took place through extensive discussions in the Economic and Financial Committee (EFC) and other competent instances of the Council. These discussions were facilitated through a series of explanatory notes. The increased complexity of the surveillance framework called for additional explanation in a spirit of transparency.

Therefore, all the approaches to the implementation of the revised framework were summarised in the Vade Mecum on the Stability and Growth Pact, publicly available on the Commission’s website. The Vade Mecum will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU (see Commission’s replies to paragraphs 88-94).

96

In relation to the top-down approach, while the necessary data to replicate the Commission's calculations were not systematically available outside the Commission until 2014, the Commission has made significant efforts to correct this and now aims at insuring full transparency by giving access to all relevant data to the Member States. To that end, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach). Furthermore, after each forecast round (as of the Commission 2014 spring forecast) the Commission provides Member States with an excel spreadsheet tool with all the relevant input data in order that they can exactly replicate the Commission's calculations.

97

The Commission would like to clarify that a bottom-up quantification of the measures as part of the careful analysis that needs to be undertaken in cases of a shortfall from the recommended budgetary targets, was first proposed in a Commission note on the 'Assessment of effective action' to the Alternates of the Economic and Financial Committee (the relevant instance of the Council) in December 2012 and since then carried out as a complementary indicator of the fiscal effort in the careful analysis, notably in the Staff Working Documents accompanying EDP recommendations or in the budgetary surveillance notes regularly discussed with the Member States. In the attempt of providing greater transparency on the methodologies used to assessing compliance with EDP recommendations, a note reviewing the methodology and detailing the bottom-up operationalisation (Review of the methodology for assessing effective action) was first presented on 26 February 2014 at the EFC-A. The Economic and Financial Committee (EFC, the Parent Committee) approved the note on 12 June 2014, which was endorsed by the Ecofin Council on 20 June 2014.

The Commission found that structural fiscal targets were expected to be met by France, according to the commonly–agreed methodology and decided to put the procedure in abeyance. The reasoning is detailed in the Commission SWD available at http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/communication_to_the_council/2015-07-01_fr_communication_swd_en.pdf

98

The Commission agreed to provide Member States with all the necessary information for them to replicate the computation of the effective action assessment thus including detailed excel spreadsheets providing step-by-step calculations of both the top-down and bottom-up approach. However, according to a specific request from the Member States, data are not fully public, but shared via a common platform named CIRCA, to which only the members of the EFC and their alternates in the Ministries are granted access.

99

The ex-post assessment of the impact of individual measures may not yield conclusive results. Indeed, such an impact can be difficult to calculate due to problems in isolating the effect of the measure from wider drivers of the changes in revenue and expenditure, such as the economic environment, as against the no-policy change trend that would have prevailed. Generally, the effectiveness of discretionary budgetary measures ex-post is essentially reflected in the budget execution and in the fulfilment (or not) of the budgetary targets that have been set. The Commission assesses whether the Member State has taken sufficient policy measures to meet the recommended budgetary targets based on two complementary tools e.g. the top-down and the bottom-up approach for the assessment of effective action.

The Commission (and Member States) also monitor the yield of individual discretionary fiscal measures. Aggregate series are available in the AMECO database. Yields are estimated ex ante and revised as needed during implementation (e.g. in case the design of the measures is amended, if these are only partially implemented, if there is ground for the revision of the underlying assumptions, inter alia).

100 (i)

In the case of Malta, the report on action taken was submitted on 1 October 2013 (3 months after the Council recommendation of 21 June 2013). It specified the measures for 2013 while for 2014 it remained vague. In particular, the report announced expansionary measures on the expenditure side compensated by increases in indirect taxation and restrictions to recruitment, but for all the details it just referred to the forthcoming budget.

The lack of details was a consequence of the fact that in Malta the budgetary process was not aligned with the European calendar. In particular, it was not possible for the Maltese authorities to reveal the budget measures in both the report on action taken and the draft budgetary plan which, therefore, did not provide sufficient details on the discretionary measures underpinning the budgetary targets. All the necessary details were made available only after the presentation of the 2014 budget (that was presented to Parliament on 4 November 2013 and adopted on 21 November 2013). The Commission's assessment, which was based on the Autumn forecast published on 5 November did not incorporate the measures announced for 2014. These measures were finally included in the following Winter forecast.

100 (ii)

The report on action taken submitted by France in October 2013 was indeed merged with the 'Rapport économique social et financier' (RESF) which routinely provides an assessment on public finances as part of the preparation of the draft budget. In its analysis of the draft budgetary plan, the Commission considered that the document did not breach the formal reporting requirements but rather that, at that stage, the measures outlined were considered insufficient to bring the deficit to 3%. Being a case of a multi-annual correction, the assessment focused on 2013 and 2014, as required in the code of conduct. However, risks associated to the lack of information for the later years were duly flagged in the accompanying Staff Working Document available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/fr_2013-11-15_swd_en.pdf

The Commission reassessed again the situation in Malta in the following Winter forecast published in February 2014. According to this new deficit forecast, which incorporated the measures announced with the 2014 budget, the EDP requirements for 2014 were fulfilled in nominal terms.

101

The Commission does not agree with this observation as the assessment of action taken is at the same time backward and forward-looking, insofar as it involves an analysis of compliance with EDP targets for the past years (based on outturns) current and future years (based on forecast), notably through the assessment of the adequacy and credibility of the measures envisaged by the Member State in question to achieve future EDP targets. This is the approach generally followed in all related Commission documents such as the Communication on action taken, the SWD accompanying the assessment of the SCP or the Commission opinion on the DBP, including in the 'Implications of the Commission forecast for budgetary surveillance' notes that regularly provide an overview of compliance with the SGP requirements for all MS after each forecast round and are discussed with the relevant instance in the Council.

However, as procedural EDP steps in case of non-effective action in response to the Council recommendation have to be based on a solid set of evidence, they have largely been taken based on observed data. The Commission considers that the initial assessment of compliance following the report on action taken quoted in the Vademecum has a preliminary character reflecting government announcements, as also explained in the Code of Conduct.

Moreover, the Commission would like to recall that, following the entry into force of the Six-Pack, compliance with the preventive and corrective arms of the Stability and Growth Pact is now subject to continuous monitoring. The Commission forecasts, which are issued three times a year – winter, spring and autumn – constitute the key milestones for these regular fiscal assessments, including the assessment of effective action for Member States whose EDP is in abeyance. Should the Commission assessment conclude on non-compliance with the EDP recommendations this would lead to a stepping up of the EDP. Therefore, the implications from too relaxed targets for first year are not material to the assessment of effective action.

102

The 2 June 2014 Commission recommendation for a Council recommendation on the national reform programme and the stability programme included the recommendation to 'reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the EDP'. Moreover, the Commission adopted its opinion on the Draft Budgetary Plan and published on 28 November 2014 a staff working document. Overall, the position of the Commission, based on its forecast, was that France was at risk of non-compliance with the provisions of the Stability and Growth Pact as the headline deficit and the adjustment in the structural balance were projected to fall short of the 2013 recommendation. The Commission invited the authorities to take the necessary measures within the national budgetary process in order that the 2015 budget will be compliant with the Stability and Growth Pact.

106

When recommendations were phrased in terms of average annual figures, the Commission noted that it frequently resulted in a lack of effective action in early years, not giving rise to stepping-up of the EDP. This is why the Commission decided to revise its practice regarding how to draft EDP recommendations and this explains why, starting from 2011, all the new article 126 (7) recommendations have annual nominal and structural targets over a multi-annual period.

Common Commission reply to paragraphs 108 and 109

The Commission would like to clarify the role of structural reforms under an EDP.

The Commission highlighted that the implementation of growth-enhancing structural reforms that can ultimately improve the long-term sustainability of public finances, as a relevant factor to be considered when deciding whether to open or extend an EDP. In this regard, it should be noted that the Commission is obliged under Article 2 of Regulation 1467/97 to take account of such relevant factors in making its recommendations. However, in terms of enforcement, the focus of the legislation which governs the EDP is the fiscal outcome and, as such, the relevant legislation does not contain specific provision to enforce the implementation of structural reforms. Indeed, it is important to re-state that the assessment of effective action under an EDP is focussed on the delivery of the required budgetary adjustment and is not affected by the evaluation of structural reforms. The implementation of structural reforms, including those undertaken under an Economic Partnership Programme (EPP), is monitored in the context of the European Semester, including through the Macroeconomic Imbalances Procedure.

110

In the Opinion on the EPP of December 2013, while acknowledging that all reforms were in progress, the Council pointed to the need to fully address some CSRs, notably the debt bias in corporate taxation in CSR1 and the long-term sustainability of public finances in CSR2.

In fact, the Commission's Staff Working Document assesses the authorities' progress with implementing the previous year's country-specific recommendations adopted by the Council. The regulation does not foresee specific follow up to the Council Opinion on the EPP, neither by the Commission nor by the Member State. Additional information on the planned and implemented measures after the publication of the previous year's CSRs was provided in the Annex to the 2014 National Reform Programme, as requested from all Member States. The quality and credibility of the information provided was fully reflected in the assessment of implementation and the Commission proposal for new CSRs.

Box 11 – First indent – Spending review

All documents recently issued by the Commission on Italy's public finances, for instance the Article 126 (3) report of February 2015, the opinions on the DBP of 2015 and of 2016, mention the need to make the spending review an integral part of the budgetary process at all levels of government.

Box 11 – Second indent – Tackling corruption

The Commission does not agree with the Court's observation in Box 11, as all assessments produced by the Commission since the creation of the Italian anti-corruption authority (ANAC) by the November 2012 anti-corruption law highlighted the challenges, both procedural and substantial, hindering the operational effectiveness of the new institution.

The Commission staff working document 'SWD(2013)362final' of May 2013 already pointed out that, concerning the recently approved anti-corruption law, 'not only does the law still require implementing acts but it also does not tackle some critical issues'. After the approval of different implementing decrees of the anti-corruption law, the Commission staff working document 'SWD(2014)413 final' of June 2014 highlighted: 'the National Anti-corruption Authority for the Evaluation and Transparency of Public Administrations (ANAC), in charge of coordinating preventive anti-corruption policies nation-wide, of which members have been increased from three to five in 2013 counts only limited staff and lacks sanctioning powers'. Moreover, the Commission has systematically focussed on the need for Italy to revise its statute of limitations in order to enhance the effectiveness of the repression of corruption since 2012, when a country-specific recommendation for Italy on this issue was issued for the first time.

Box 11 – Third indent – Tackling tax evasion

The Commission does not agree with any suggestion that it does not pay sufficient attention to tax-evasion in Italy with the examination of all relevant figures taken account of in the Commission's broader assessment. For instance, the 2015 Country Report for Italy amply discussed the extent of the challenge represented by tax evasion in Italy. Namely, it highlighted that 'tax compliance remains low and time-consuming, which could harm the level playing field and social equality' (pages 70 and following). Moreover, the 'technical assessment of the 2015 Stability Programme' features a critical assessment by the Commission of the effectiveness –also in terms of expected revenues- of the measures implemented by the Italian government to step up the fights against tax avoidance/evasion (see page 10): 'measures to improve compliance through communications from the tax administration to the tax payers based on the cross-check of databases (including the so-called spesometro) and the subsequent possibility for the latter to autonomously revise their tax return well before the litigation phase (so-called adempimento volontario). While the latter measure, if properly implemented in line with expectations, could be promising, the Commission forecast does not incorporate the related projected revenues from it, considering that implementation is still at the initial phase'.

Reply to the heading above paragraph 113

In connection with the effectiveness of the EDP, the Commission notes that of the 23 Member States under an EDP in November 2011, 15 exited the procedure by end-2015, all the member States examined improved both their budget and structural balance. Acccording to the Commission's 2016 Winter Forecast, in addition to Greece, Spain, France and Finland were the only Member State with a headline deficit still exceeding the 3% threshold in 2015.

118

In France, general government debt increased in line with the still relatively high general government deficit in a context of low nominal growth.

In Italy, the debt ratio increased on average by 4.7 pps of GDP per year during the 2008-2014 crisis period, bringing the debt-to-GDP ratio to just above 132% in 2014 from the pre-crisis (2007) trough of around 100%. The driver of this substantial increase was the debt-increasing impact originated by the large difference between rather high implicit interest rates paid on debt (4.2% on average) and nearly zero average annual nominal GDP growth (-1.3% real and +1.4% deflator), i.e. the so-called snow-ball effect. By contrast, the primary balance remained on average in surplus (1.2% of GDP), continuing to give a debt-decreasing contribution. The latter was however offset by the large stock-flow adjustment (SFA) mainly related to the financial support to euro-area programme countries and the accumulation of liquidity in those years.

In Germany, Malta and the Czech Republic (where it remains under the threshold), the increase over the 2008-2015 period was moderate (1.3% in Malta, 6.6% in Germany and 12.3% in the Czech Republic) and the ratio is now on a downward path. Cyprus has had to cope with an unprecedented banking crisis and experienced an increase of 63.3% in its debt-to-GDP ratio from 2008 to 2015, with the sharpest rise coming between 2008 and 2013 (from 45.1% to 102.5%). However, since 2013, when it was placed under a programme of financial assistance, the debt dynamics started turning, and the ratio stabilised in 2014 (108.2%) and 2015 (108.4%). Finally, both, France and Italy experienced a continuous increase of around 30% in their debt-to-GDP ratio over the 2008-2015 period.

Box 12

In relation to Box 12, the Commission would point out that the statistically validated outturn data for 2015 will only be available in April 2016.

120

The Commission considers that while high levels of debt in Italy hampered the effectiveness of the Italian EDP, Italy's 2009 EDP Recommendation set a deadline for correction of 2012 and this was met, with the EDP being abrogated in 2013. This helped to reduce the risk premium on the high public debt and thus facilitate its reduction.

123

The Commission is fully committed to apply sanctions when this is appropriate and foreseen according to the rules.

124

The EDP traditionally carries a fiscal focus and was not built with the enforcement of structural reforms in mind. Indeed, the possibility for sanctions is limited to non-compliance with EDP budgetary targets.

Policy measures with a potential fiscal effect and a considerable impact on specific structural areas are monitored in the context of the European Semester. However, for countries subject to specific monitoring due to the presence of excessive imbalances, the implementation of reforms is monitored under this specific process within the overall Macroeconomic Imbalances Procedure. Different enforcement possibilities exist for SGP and MIP:

Fiscal policies: enforcement measures both under the preventive arm and corrective arm of the SGP

Macro-economic imbalances: enforcement measures under the corrective arm (i.e. Excessive Imbalance Procedure)

The Commission concurs that the degree of implementation is not adequate and should be improved. To this aim a number of actions have been undertaken as follows:

The Commission supports regular dialogue with Member States (i.e. via bilateral meetings), social partners and stakeholders at all levels to ensure close monitoring and follow-up, as well as to review performance and support exchange of experience. In last year's European Semester cycle the Commission intensified its contact with the Member States on the recommendations. In addition, the Commission strengthened its presence in the Member States and stepped up political contacts, including with national Parliaments and social partners.

The new streamlined process followed for last year's European Semester cycle allows for more time to examine and discuss EU guidance to the Member States. The country-specific analyses for each Member States (i.e. the Country Reports) are available two and a half months before the CSRs, together with the In-Depth Reports that follow on the Alert Mechanism Report. This allows for greater transparency and feedback from the Member States before the adoption of the CSRs and is expected to increase ownership and ultimately the effective implementation of the recommendations.

The Commission is also making sure that EU funding is steered towards EU and national priorities. The EU's Structural and Investment Funds are the principal EU level investment tools for delivering on the Europe 2020 goals and the CSRs. The new Investment Plan for Europe and the creation of a European Fund for Strategic Investments will also serve this purpose. EU funds will be paid out mainly for growth-boosting investments like the ones identified in the CSRs and that enable the EU meet the Europe 2020 targets. In addition, the Commission has concluded Partnership Agreements with Member States for these funds only where the conditions are fulfilled. If needed, the Commission can ask Member States to modify their plans to support key structural reforms and can suspend funding if recommendations are repeatedly and seriously breached.

Finally, to increase the effective implementation of reforms (CSRs) and make the best use of structural funds, the Commission may also provide technical assistance to all Member States upon request.

127

The Commission underlines the plans for the improving the economic governance framework set out in the Five Presidents' Report.

Conclusions and recommendations

128

The Commission highlights the very significant progress in improving the EDP as a tool for economic governance.

Since spring 2014, the Commission has given access to Member States to all relevant data, indicators and the tools for the calculation of the relevant indicators applied in the fiscal surveillance process. On this basis, Member States are able to fully replicate the Commission's calculations. In order to further enhance transparency in the EDP, as of the 2015 spring forecast, the Commission also shares with Member States the yield of the key individual discretionary tax measures for Member States under EDP for which the bottom-up approach applies.

131

The examination of statistical data is documented in a range of internal and external documents describing the processes for the checking of EDP notifications and questionnaires, and mission guidelines.

The basis for the delimitation of general government is detailed in ESA2010 and in the MGDD, including a decision tree. For the purpose of checking the delimitation of general government, Eurostat also has at its disposal the register of government entities, part of the EDP Inventory, the questionnaire on government controlled entities classified outside government, available since 2011 and documents on reclassifications requested before EDP visits. The issue of delimitation of government is one of the main topics in each EDP visit.

Recommendation 1 – First paragraph

The Commission accepts the recommendation.

Recommendation 1 – Second paragraph

The Commission accepts the recommendation.

The Commission has appropriate internal procedures guiding its quality assessment work. They are established by internal documents and are fit for purpose.

The Commission will nevertheless review its procedures in these areas and do its utmost to improve them where needed.

132

The Commission assesses control systems in Member States during its visits, EDP questionnaires, peer reviews, questionnaires, and other instruments. As an example, it has promoted the signature of memoranda of understanding between the main institutions responsible for EDP data, even though it is not a legal obligation. Accordingly Eurostat's system, composed of various building blocks, is fit for purpose.

The Commission can enhance the documentation on the components identified by the Court, where appropriate (supervisory and control systems in Member States).

See also Commission reply to paragraph 59.

Recommendation 2

The Commission accepts the recommendation.

Institutional arrangements and supervisory and control systems are part of both upstream and standard dialogue visit agendas. The Commission will analyse how this issue could be better documented in the future.

133

The Commission considers that the duration of the visits is sufficient to adequately examine data quality issues. When needed, Eurostat has the possibility to make longer or more frequent visits. In addition, Eurostat has always managed to adjust agenda points during the missions and, if not the case, to follow up points after the mission. This is increasingly effective with available IT technology.

See also Commission replies to paragraphs 52 and 54.

The number, length and scope of these visits is dependent on the availability of human and financial resources.

134

Direct verification is performed on some issues during the visits (and not only during the visits: for example, when Eurostat officials review contracts for Public-private Partnerships (PPPs) in the office).

High-risk topics have been included in the agenda for both upstream and standard dialogue visits. Apart from the general high-risk issues which are always part of the mission agendas, specific issues based on risks are included.

See also Commission replies to paragraph 53.

135

The Commission will ensure that final reports of the dialogue visits are published within a reasonable delay. However, sharing good-practices does not hinge on the publication date of the mission report as Member States and the Commission has various well-established fora to do so (e.g. EDP Working Group, Task Force on methodology etc.).

See also Commission reply to paragraph 56.

Recommendation 3 – First paragraph
The Commission accepts the recommendation.

The Commission considers that the duration of its dialogue visits is appropriate.

More frequent visits would have resource implications, both in human and financial terms. The Commission will balance the costs and merits of this recommendation.

Recommendation 3 – Second paragraph
The Commission accepts the recommendation.

Recommendation 3 – Third paragraph
The Commission accepts the recommendation.

The Commission will ensure that final reports of the dialogue visits are published within a reasonable delay.

136. If an action point concerns a material issue, the Commission always follows it up. Sometimes deadlines have to be extended for pragmatic or organisational reasons.

Eurostat's quality assessments include all important and material issues which are addressed that are addressed by action points.

See Commission reply to paragraph 56.

Recommendation 4
The Commission accepts the recommendation.

The Commission will investigate whether and in which areas it should more fully exercise its powers.

137
Eurostat only publishes advice in agreement with Member States. In a step towards increased transparency, Eurostat has started to include information to the EFC on non-published advice.

See Commission replies to paragraphs 57 and 58.

Recommendation 5

The Commission accepts the recommendation.

138

Eurostat has a procedure specifying the steps, timetable and role of each actor for the analysis of the notified EDP data. This includes regular meetings with senior management and with the Director General. A few days before the press release, the Director General, acting as the Chief Statistician of the European Union, assesses the situation for every Member State and decides on reservations and amendments.

Reservations or amendments to the data are based on professional judgment, on the basis of the qualitative and quantitative information available before and during the clarification process. This process is done exclusively on a statistical basis, exercising Eurostat's statistical authority provided for this purpose and enshrined in legislation.

See Commission reply to paragraph 65.

139

Eurostat has a procedure specifying the steps, timetable and role of each actor for the analysis of the notified EDP data. This includes regular meetings with senior management and with the Director General. A few days before the press release, the Director General, acting as the Chief Statistician of the European Union, assesses the situation for every Member State and decides on reservations and amendments.

Reservations or amendments to the data are based on professional judgment, on the basis of the qualitative and quantitative information available before and during the clarification process. This process is done exclusively on a statistical basis, exercising the statistical authority provided to Eurostat for this purpose.

See Commission reply to paragraph 65.

Recommendation 6

The Commission accepts the recommendation.

The Commission ensures that all methodological problems with a potential/actual impact on net lending/net borrowing are addressed in a consistent way. The Commission will however complement the written internal documentation for setting reservations or amending data where necessary.

140

The Commission does not agree with the observation that the analysis underlying its recommendations in the context of the EDP lacks transparency. The transparency of the Commission's assessments and subsequent recommendations has significantly increased over the last number of years.

The EU fiscal framework has undergone several changes in recent years with a view to introducing complementary rules, strengthening compliance mechanisms and raising national ownership. The legislative changes had to be technically operationalised and methodologies adapted.

This has involved the Commission setting out the methodologies which it utilises in assessing compliance with the Stability and Growth Pact (SGP) - such as the effective action methodology for the assessment of compliance in the context of the EDP and the classification principles on one-off measures as published in the Report on Public Finances in EMU 2015 – and has mainly been facilitated through a series of explanatory notes brought to the competent instances of the Council, the contents of which are summarised in the Vade Mecum, publicly available on the Commission's website. The latter will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU.

In order to further increase transparency, since spring 2014 the Commission agreed to provide Member States with all the necessary information to replicate the underlying computations related to the compliance assessment with both the preventive and the corrective arm, including detailed excel spreadsheets providing step-by-step calculations. Regarding discretionary measures, the Commission has made fully public aggregate data series on the impact of discretionary measures and the level of one-offs since spring 2014 and, in line with the Ecofin Council Conclusions of June 2014, has made further progress by sharing with the Member States the yield of key individual tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecast will be compared with in order to compute both the top-down and the bottom-up approach).

The Commission recognises that the complexity of the surveillance framework has increased. Indeed, there is a natural trade-off between defining rules and approaches as much as possible in terms of capturing the underlying macroeconomic situation and developments, and the degree of complexity of the entire framework. Transparent codification and publication of the methodologies reduced the discretion and scope for interpretation in the system.

As indicated in its Communication of 21 October 2015, the Commission intends to make further efforts to improve clarity and reduce the complexity of the existing framework, in cooperation with the Member States, wherever possible within the existing legislative framework. The Commission will aim to streamline the methodology for assessing compliance with the SGP.

141

A large degree of the growing complexity referred to by the Court has arisen as a result of an attempt to provide greater transparency. At the same time, the increased complexity of the surveillance framework called for detailed explanation in a spirit of transparency.

The Commission considers that transparency has recently been enhanced significantly and while recognising room for improvement, it does not agree that the efforts so far have been insufficient. Indeed, the Commission is fully committed to transparency. In the statistical field, the Commission publishes methodological advice and guidance, provided it does not breach statistical confidentiality enshrined in Council Regulation 479/2009. With the European System of Accounts, the Commission's approach is clearly rules-based and the Commission does not depart from established procedures. Applying sound judgement in line with the rules instead of a purely mechanistic approach is, however, a core task of the Commission and is the only means to properly reflect the diversity of Member States and issues at stake.

Moreover, the legislative changes introduced in recent years in the EU fiscal framework had to be technically operationalised. To this end, the methodologies and classifications utilised in assessing compliance with the Stability and Growth Pact (SGP) had to be adapted. This process took place through extensive discussions in the Economic and Financial Committee (EFC) and other competent instances of the Council. These discussions were facilitated through a series of explanatory notes. The increased complexity of the surveillance framework called for additional explanation in a spirit of transparency.

Therefore, all the approaches to the implementation of the revised framework were summarised in the Vade Mecum on the Stability and Growth Pact, publicly available on the Commission's website. The Vade Mecum will now be updated annually in line with a commitment in the Commission Communication of 21 October 2015 on Completing EMU.

The formalisation of such methodologies, however, tends to reduce the discretion and scope for interpretation in the system, due to the imperative to abide by the published methodology.

In order to further increase transparency, since spring 2014 the Commission agreed to provide Member States with all the necessary information to replicate the underlying computations related to the compliance assessment with both the preventive and the corrective arm, including detailed excel spreadsheets providing step-by-step calculations. Regarding discretionary measures, the Commission has made fully public aggregate data series on the impact of discretionary measures and the level of one-offs since spring 2014 and, in line with the Ecofin Council Conclusions of June 2014, has made further progress by sharing with the Member States the yield of key individual tax measures incorporated in the bottom-up approach for EDP countries as of spring 2015.

Furthermore, the Commission has made available detailed information on the main measures in the Staff Working Documents which accompany new EDP recommendations, including the forecast of key variables for the computation of the fiscal effort under the baseline scenario (e.g. the point of reference to which future forecasts will be compared in order to compute both the top-down and the bottom-up approach).

Recommendation 7 – First indent – Assessment process

The Commission partially accepts the recommendation given the very substantial progress in making its analyses more transparent.

In relation to one-off and temporary measures, the Code of Conduct specifies that one-off and temporary measures are measures having a transitory budgetary effect that does not lead to a sustained change in the inter-temporal budgetary position and goes on to provide several examples. However, owing to the very wide variation in country specificities, it is eminently possible that measures which do not neatly fit into any previously encountered category will arise and, in such circumstances, it is highly desirable that the Commission retains the leeway to apply its economic judgement. In this regard, the Commission has published work in previous Public Finance Reports which sets out the analytical approach and rationale which is taken and internal work has been undertaken updating this material. Updated and more detailed internal guidance (including a number of guiding principles and typical cases) on one-off measures have been published externally in the Public Finance Report 2015.

Similarly, the concept of 'unexpected adverse economic events' has not been definitively set out in advance as it is not possible to exhaustively define the set of individual country circumstances which this may apply to ex-ante, particularly when considering that these events are by nature unanticipated. However, the Commission considers that the agreed methodology for assessing effective action provides a comprehensive approach on the matter.

The Commission provides the analysis of relevant factors as required by the Council Regulation (EC) No 1467/97, taking into account the factors listed directly in the legislation as well as those deemed relevant by the Member State concerned.

The Regulation stipulates that in a case where the deficit criterion is breached and the general government debt is above 60% of GDP, the relevant factors will only be considered in the decision regarding whether to launch an EDP if the deficit remains close to the reference value and the breach is judged to be temporary.

The legislation indeed provides a broad list of possible relevant factors which is not exhaustive, since it requires the Commission to also consider factors deemed relevant by the Member State concerned. This is a crucial element of accounting for the underlying country-specific circumstances which differ in their character and gravity across countries, and which may not always be quantifiable.

Moreover, the assessment of effective action on the basis of the top-down approach also allows to correct for the impact of unexpected events.

Recommendation 7 – Second indent – Accessibility of data

The Commission accepts the recommendation.

Recommendation 7 – Third indent – Bottom-up assessment

The Commission does not accept the recommendation as the Commission does not have the legal power to enlist the services of the independent national fiscal councils.

Recommendation 7 – Fourth indent – Robustness of analysis

The Commission accepts the recommendation.

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The Court's observation regarding the focus of the EDP traditionally lying more on government deficits than on debt is well-founded. Prior to the entry into force of the Six-pack, the debt component of the SGP was insufficiently active in terms of the regular surveillance processes. For this reason, one of the key reforms contained within the Six-pack was the operationalization of the debt-rule, notably by elevating the breach of the 60% of GDP debt threshold to the EDP trigger and defining what constituted debt that was declining at a sufficiently diminishing pace, as stipulated under the Regulation.

Countries that were in EDP on the date that the Six-Pack amendments to the SGP were adopted – that is 8 November 2011 – are subject to transitional arrangements for the three years following the correction of their excessive deficit. During those three years, compliance with the debt criterion is judged according to whether the Member State in question makes sufficient progress towards compliance.

This arrangement represents a practical recognition of the fact that Member States which were already in an EDP at the time of the adoption of the Six-Pack already had agreed fiscal consolidation paths, which were not necessarily in line with the requirements of the newly operationalised debt rule. Hence, there would have been an inconsistency between the ongoing EDP procedures and the requirements of the debt rule. The transition period is therefore a necessary recognition that these Member States require time to adapt their structural adjustments to the level needed to comply with the new benchmark. It is important to note that countries still need to be moving towards compliance during this period and face possible procedural consequences in case of non-compliance; it is not the case that the debt requirement does not apply at all during the transition. Moreover, although the transition period is defined as lasting three years, during the last year Member States must show compliance with the debt criterion, so that in reality the transitional arrangements only differ from the usual debt reduction benchmark over the first two years.

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The Commission does not agree that the Communication on making the best use of the flexibility within the existing rules of the Stability and Growth Pact has in any way undermined the credibility of the process, or risked debt sustainability. Indeed, the Communication did not represent a departure from the pre-existing scenario as it did not extend the concept of factors to be taken into account in the decision not to launch an EDP. Article 2 of Regulation 1467/97, dealing with the launch of an EDP, clearly states that when preparing a report under Article 126(3), the Commission shall take into account all relevant factors in so far as they significantly affect the assessment of compliance with the deficit and debt criteria - including developments in medium term potential growth, the implementation of policies in the context of prevention and correction of excessive macroeconomic imbalances, and the implementation of policies in the context of the common growth strategy of the Union.

The debt rule (both the full rule as well as the transitional rule) does not automatically imply that a Member State is put in EDP once the quantified target is missed. This non-automaticity is explicitly foreseen in the regulation and is economically warranted given that debt developments are (more than deficit developments) not fully under the control of the government. Indeed, the debt-to-GDP ratio is particularly dependent on developments in both real GDP growth and inflation. In addition, this also concerns the stock-flow adjustment, which is influenced i.a. by foreign exchange rates and statistical reclassifications.

Recommendation 8

The Commission accepts the recommendation.

Realistic and credible EDP targets should speak to the need for caution in considering the provision of debt-to-GDP targets as a component of EDP recommendations.

Governments do not exert the same level of control on the development of debt-to-GDP ratios as they do in relation to the deficit. In particular, non-deficit related financial transactions (so-called stock-flow adjustments) can have a significant impact upon debt-ratios in a given year. As it the nature of debt dynamics that one year builds upon the other, such one-off occurrences can have knock-on implications for subsequent years that would create an inconsistency between deficit and debt-based targets.

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In terms of enforcement the focus of the legislation which governs the EDP is fiscal outcomes and, as such, the relevant legislation does not contain specific provision to enforce the implementation of structural reforms. Indeed, the assessment of effective action under an EDP is focussed on the delivery of the required budgetary adjustment and is not affected by the evaluation of structural reforms. The implementation of structural reforms, including those undertaken under an Economic Partnership Programme (EPP), is monitored in the context of the European Semester. However, the Regulation does not foresee specific steps in cases where structural measures fall short compared to what is recommended in the analysis of the EPP. For countries subject to specific monitoring due to the presence of excessive imbalances, the implementation of reforms is monitored under the Excessive Imbalances Procedure.

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The need to avoid duplication and unduly complicate surveillance procedures explains why monitoring is not ensured in the EDP related documents.

Such a monitoring is warranted during the European Semester, that was created in order to ensure that economic and budgetary policy are treated in an integrated manner, taking their interactions and interdependencies into account.

The changes introduced by the Commission to the 2015 European Semester aimed at increasing ownership at national level and accountability of European and national decision-making.

As part of the reinforced European Semester, since 2015, a Country Report is produced for each of the Member States and for the euro area in February each year, identifying country-specific challenges, notably linked to the reform process, and the progress made in addressing the issues identified in the previous round of Country Specific Recommendations. These detailed assessments inform the formulation of the next round of CSRs.

Moreover, for countries subject to specific monitoring due to the presence of excessive imbalances, the implementation of reforms is monitored under this specific process within the overall Macroeconomic Imbalances Procedure.

Concerning the Commission’s recent decision to take greater account of the implementation of structural reforms, it should be stressed that it does not impact the assessment of effective action under the EDP.

Recommendation 9 – First paragraph
The Commission accepts the recommendation.

The introduction of Economic Partnership Programme (EPPs) is based on the fact that excessive public deficits may be rooted – at least in part – on structural weaknesses. If these weaknesses are not directly addressed, budgetary measures may be insufficient to produce a lasting correction of the deficit. Instead, addressing the underlying weaknesses is likely to be effective and more efficient from an economic point of view, over the medium and longer terms. Since the entry into force of the Two-pack, Member States for which an EDP has been opened/the EDP deadline has been revised following effective action, shall present an EPP at the same time as the report on action taken that is due 3 to 6 months since EDP steps have been taken.

The EPPs are one-off documents whose role is to act as a roadmap for the fiscal structural reforms which Member States consider to be necessary to ensure an efficient and lasting correction of their excessive deficit. In their EPP, the Member States should identify and select their priorities in terms of competitiveness, long-term sustainable growth and addressing their structural weaknesses. The EPP serves to complement the budgetary measures taken over the course of an EDP with a wider strategy aimed at avoiding the occurrence of excessive deficits. However, its one-off nature does not imply that there is no follow-up. The Commission and the Council monitor the implementation of the fiscal-structural reforms in the context of the European Semester. In this regard, one should bear in mind the need to avoid duplication and unduly complicated surveillance procedures.

Recommendation 9 – Second paragraph

The Commission does not accept the recommendation as it considers that it already operates to the full extent of the powers available to it under the legislation and has repeatedly publicly stressed the need for Member States to undertake necessary structural reforms.

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Regarding the new reporting requirements, there are no (explicit) legislative provisions to ensure that Member States comply with them, nor sanctions in case of non-compliance. However, as this is a requirement stemming from a Regulation they could be enforceable given the possibility for the Commission to launch an infringement procedure in case of non-compliance. The effectiveness of this remedy should be judged against the requirements of the EDP.

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As replied to rec. b (iv), the Regulation does not always foresee a systematic evaluation/feedback to be made public by the Commission. Additional reporting is fully taken into account by the Commission in its regular surveillance (i.e. in each forecast round; a short assessment is generally provided in the country-specific section of the ' Implications of the forecast for budgetary surveillance' notes since AF2013). Only in cases of non-compliance with the requirements, this would be clearly flagged and pointed out in an appropriate Commission document (depending on the specific situation, this can be either a dedicated note or part of the documents assessing the SCP or DBP). Infringement procedures can be launched in case of non-compliance with the requirements.

Recommendation 10 – First paragraph

The Commission accepts the recommendation.

Recommendation 10 – Second paragraph

The Commission does not accept the recommendation since the effectiveness of this remedy should be judged against the requirements of the EDP.

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The Commission restates its commitment to apply sanctions as appropriate in line with the provisions of the Six-pack.

Recommendation 11

The Commission does not accept the recommendation.

The Commission has always acted in compliance with the Treaty. The Commission will continue to recommend that the Council step up the procedure and apply sanctions where appropriate in line with the legislation.

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'The excessive deficit procedure (EDP) is a key element of economic governance in the EU. It is used where necessary to correct the trajectory of deficit and debt in the Member States. For this audit we examined the quality of the EDP in the difficult recent economic climate, from the data underlying decisions to initiate the procedure through to the final results. We found that effective implementation is still a work in progress, but that the Commission is committed to continuing with the necessary improvements.'

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