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SUBJECT European economic governance

Madam President,

On 4 July 2013, the Senate asked the Court of Audit to inform it of the implications of European economic governance for the Netherlands' budget and accounting cycle. We undertook to provide the information in November. We do so by means of this letter.

The Court of Audit was asked to provide information on three topics:

1. recent European legislation on budgetary discipline and macroeconomic surveillance and the potential implications for the national budget and accounting process;
2. the adequacy of the information provided on the Netherlands' financial obligations. More specifically, the risks that may arise from those obligations and their potential impact on the sustainability of public finances;
3. the role of supreme courts of audit, in this case the Netherlands Court of Audit, in the various procedures in place to combat the financial and economic crisis, and their role in the accounts rendered, in part in the European Semester.[1]

The request followed earlier requests for information made by the Senate to the Council of State.[2] The Council of State concluded that several factors restricted the legislator's power to adopt budgets and that national parliaments were formally involved but would be of secondary importance if European coordination of national budgets and economic

[1] The European Semester is an annual mechanism for the EU and the EU member states to coordinate budgetary and economic policies.
[2] Parliamentary Papers, I 2012-2013, 33 454, AB of 18 January 2013.

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APPENDICES 6

policies were extended. This would be particularly relevant, according to the Council of State, in crisis situations, when emergency measures would need to be taken at short notice. The Council of State further found that political decision-making on the following year's budget would be moved largely from the autumn to the spring. It also observed that national parliaments would be engaged more in ex post parliamentary control and accountability rather than in ex ante co-decision making and approval. The government responded to this information in *State of the European Union 2013: Building Bridges in Europe*.[3] It replied that it did not share the Council's position. In the government's opinion, the European Semester closely matches the Dutch budgetary procedure and there will be no shift in the national budgetary procedure from the autumn to the spring.

We look at the three topics mentioned above in sections 1, 2 and 3 of this letter.[4] Regarding the second subject, we confine ourselves to statistical information on the national debt. A detailed consideration of the information provided on financial obligations and guarantees is provided in our report *Financial Risks to the Netherlands of International Guarantees*, which we published on 30 September 2013. Its main conclusion is that the Netherlands' financial ties with international institutions have increased substantially. An increase in the lending capacity and associated risks assumed by the international institutions has been accompanied by an increase in the risks borne by countries that act as guarantors, one being the Netherlands. Orderly and comparable information on the current situation is not available.

1 European economic governance and potential implications for the national budget cycle

1.1 Aims and structure of European economic governance

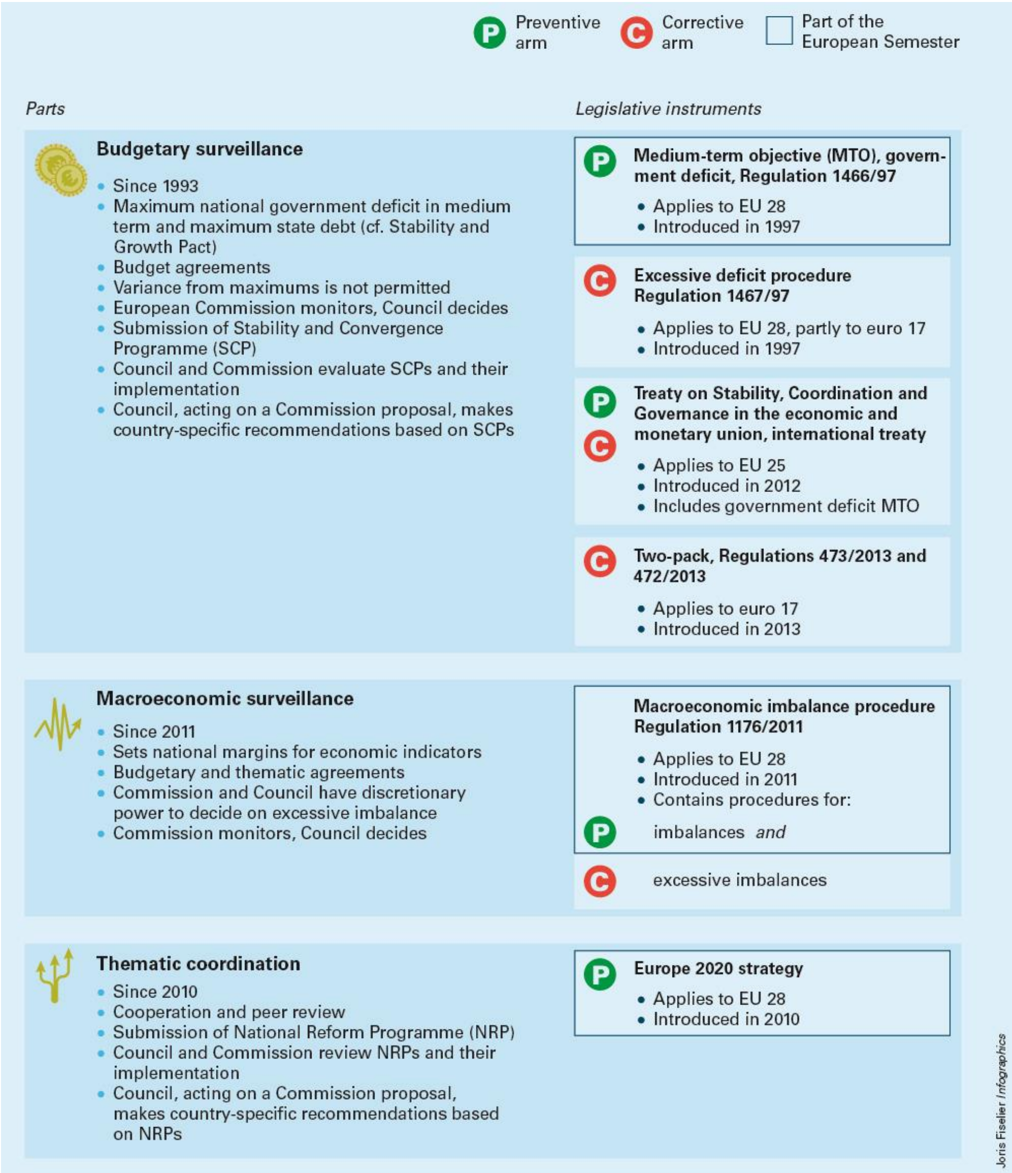
The key aim of European economic governance is to ensure sustainable and healthy national public finances. To achieve this aim the European Union will coordinate economic and budgetary policies and oversee their implementation. To address the economic and financial crisis, the EU has adopted a series of legislative instruments to strengthen budgetary discipline and macroeconomic surveillance. The European institutions intend to simplify and improve: (1) the member states' implementation of agreements and compliance with them, (2) oversight of the implementation and (3) enforcement by the European institutions.

[3] Parliamentary Papers, II 2012-2013, 33 551-1.

[4] Further to this letter, we will publish a report on the European Semester in early 2014, with a country comparison of the structure and operation of the coordination mechanism.

The structure and main obligations of European economic governance are shown in figure 1.

Figure 1 Structure and main obligations of European economic governance



A detailed table of the components and main obligations of EU economic governance is provided in appendix I.

The key dates in European economic governance and the Dutch budget cycle are shown in figure 2.

Figure 2 Key dates in European economic governance and the Dutch budget cycle

	t-1	t →										
Timeline	***November***	***February***	***March***	***April***	***May***	***June***	***July***	***Aug***	***September***	***October***	***November***	***December***
EU: European budget coordination	Commission publishes annual growth analysis for the year t+1		Council adopts annual growth analysis		Commission makes proposals for LSAs for the year t+1	Council debates LSA proposals and makes them binding					Commission gives opinion on draft budgets of euro countries	
Netherlands: 'European' moments in budget cycle	Government assessment of annual growth analysis	Parliamentary debate of annual growth analysis	Submission of SP, NRP and medium-term budget plans to Commission (before 30 April)	Parliamentary debate of NRP and SP	Government assessment of LSAs	Debate of LSAs				Submission of draft budget for the year t+1 to Commission		
Netherlands: 'National' moments in budget cycle					Accountability Day for the year t+1	• Accountability debate and discharge for the year t-1 • Spring Memorandum for the year t and parliamentary debates			Budget Day for the year t+1	Parliamentary debates of the budget for the year t+1	• Parliamentary debates of the budget for the year t+1 • Autumn Memorandum for the year t and parliamentary debates	• Parliamentary debates of the budget for the year t+1 • Adoption of the budget for the year t+1

Joris Fiselier *Infographics*

Below, we show how the various parts of European economic governance affect the national budget. We first look at how national budgetary discipline and macroeconomic surveillance will be strengthened and then consider how the measures will be enforced.

1.2 *European budgetary surveillance: implications for the national budgetary process*

Although regulations in this area have been amended and extended in recent years, there has been little real change since the introduction of the Stability and Growth Pact (SGP) in 1997. Government deficits and debt must still satisfy three criteria. Two of them are designed to correct excessive deficits in the short term (maximum government debt of 60% and maximum government deficit of 3% of GDP) and one applies to the budgetary balance in the longer term (the medium-term objective). The following rules affect the national budget cycle:

1. The EU's Economic and Financial Affairs Council (Ecofin, 'the Council') was given power to impose, on a proposal by the Commission, earlier financial sanctions on a euro country that does not adequately address problems. Since the SGP came into force in 1997, EU member states have had to share their budget plans for the coming years with the EU in the spring. Since the crisis has recently placed budgets under more than customary pressure, the EU's new powers place more emphasis on debating the budgets earlier in the year. In practice, member states that are

having to make significant spending cuts are already debating the next year's budget before the autumn.

2. The medium-term objective has been tightened up[5] and must be transposed into national law. To this end, the Netherlands has drafted the Sustainable Public Finances Bill (HOF). Every member state will have its own target to reduce its government deficit within the agreed term. The medium-term objective, or the adjustment path towards it, is binding and directly applicable.
3. In principle, both Houses of the States General must adopt the budget before the end of the year. European legislation, however, provides an exemption under the reversionary budget procedures.[6]
4. There has been a sharp rise in the volume of European legislation applicable to the national budgetary and accounting process and to reporting and accounting obligations. Member states must explain in their reports how recommendations have been or will be followed up, what policy measures they will take to achieve the set goals and how and when they will implement the measures. The number of measures increases if a member state responds inadequately and is placed in a macroeconomic and/or budgetary procedure or is in financial difficulties and receives financial support.

The Netherlands currently does not satisfy the criteria of budgetary surveillance. We consider the implications below for two scenarios: (a) divergence from the medium-term objective (or the adjustment path towards it), and (b) an excessive deficit.

a) Medium-term objective

The Netherlands must follow up the Council's recommendations to correct the divergence from the medium-term objective within five months.[7] It must also introduce an *automatic correction mechanism*. This obligation is laid down in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) of 2012. The Netherlands has incorporated the obligations arising from the TSCG in the HOF. The correction mechanism contains features that may

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[5] The lower limit of the medium-term objective has been reduced to a structural deficit of 0.5% of GDP; under the SGP it had been 1%. The medium-term objective is that government budgets must ultimately be in balance or surplus.

[6] As laid down in Regulation 473/2013, Art. 4 (3). The procedure is specified in consideration 15: 'Where, for objective reasons beyond the control of the government, the budget is not adopted by 31 December, reversionary budget procedures should be put in place to ensure that the government remains able to discharge its essential duties. Such arrangements could include the implementation of the government's draft budget, of the preceding year's approved budget, or of specific parliament-approved measures'. The Regulation does not define what 'objective reasons beyond the control of the goernment' are.

[7] Obligation under Regulation 1466/97, Art. 6 (2).

have implications for parliament's right to approve the budget. The Council makes recommendations regarding the content, budgetary size and timing of the policy measures that member states must take to address the excessive deficit. The Minister of Finance must include the measures in a recovery plan that he then submits to the States General and forward to the Council of State for consultation. The HOF lays down that the States General will in any event be informed annually in the Budget Memorandum of the implementation of the measures in the recovery plan.[8]

b) Excessive deficit procedure
The excessive deficit procedure begins when a country's budget deficit exceeds 3% of its GDP or its government debt exceeds 60% of its GDP and is not diminishing at a satisfactory rate. If a country is placed in the procedure, the Council limits budgetary freedom by obliging the country to correct the budget deficit. If there are setbacks, as expressed in the first supplementary budget act(s), the country must revise its budget in accordance with EU standards. The stability programme to be submitted the EU each spring under the Stability and Growth Pact is a declaration of intent by the government to the EU. The Netherlands has been in the excessive deficit procedure since 2009 and must show how it is following up the recommendations. Parliament retains the right to approve the budget. The Netherlands is now limited by the ceiling (as defined by the European criteria) on the budget deficit. In the event of non-compliance with the procedure, a sanction may be imposed (see section 1.4).

1.3 European macroeconomic surveillance: implications for the national budgetary process

Macroeconomic surveillance is laid down in the macroeconomic imbalance procedure (MIP), which came into force in 2011. The European Commission uses a series of economic indicators of debt, investments, house prices, unemployment, etc. to monitor imbalances in the member states' economies.

The scope of the MIP is wider than that of budgetary surveillance. Macroeconomic surveillance is concerned with specific policy fields whereas budgetary surveillance is restricted to the criteria of the budget balance (EMU balance). The MIP also gives the

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[8] On 20 September, the Senate asked the Minister of Finance whether a recovery plan would be submitted to the States General for approval. The Minister of Finance replied that a recovery plan would be included in a budgetary memorandum in accordance with the relevant provisions of the HOF. The memorandum would be submitted to the Advice Department of the Council of State and then to the States General. The minister also wrote, 'Measures in the recovery plan may require an amendment of budgetary or other legislation and therefore need the approval of the States General, unlike the recovery plan itself,' Parliamentary Papers, 33 4126 E, 9 October 2013, session 2013-2014.

Commission and the Council more discretion to determine whether a member state has an excessive imbalance or not and to take action if it has. The MIP's criteria and related reference values are indicative. Budgetary surveillance, by contrast, sets standards on government debt and the government deficit.

If the Council were to identify an excessive imbalance in the Netherlands, the Netherlands would have to correct it. If it des not, a sanction can be imposed. The consequences of macroeconomic surveillance are therefore comparable to those of budgetary surveillance in the case of an excessive deficit.

1.4 *European enforcement of national budgetary discipline and macroeconomic balance*

Budgetary discipline and macroeconomic balance in the member states are enforced by means of both a preventive and a corrective arm. The Regulations on the *corrective* arm apply to member states in the euro area only.[9] The Council can impose a variety of sanctions, such as interest-bearing deposits, non-interest-bearing deposits and fines.

In most cases, the Council approves the use of such an instrument by reverse qualified majority.[10] This means that the Council automatically adopts a Commission proposal to apply an enforcement instrument unless a majority of the Council votes against it. The Council's position is therefore restricted to some degree.[11] With the entry into force of the TSCG, the euro countries also agreed to use reverse qualified majority voting throughout the entire excessive deficit procedure with effect from 2014.[12] The euro countries in the Council will therefore automatically accept a Commission proposal unless a majority vote against it.

The Commission also has some discretion to make enforcement recommendations. It exercises its discretion in, for example, *exceptional economic circumstances* or when a member state addresses a reasoned request to the Commission.[13]

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[9] Regulation 1173/2011 of 16 November 2011 on the effective enforcement of budgetary surveillance and Regulation 1174/2011 of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances.

[10] Where decision-making concerns only countries in the euro area, only those countries take part in the Council's voting procedure. The resultant decision, however, is a Council decision.

[11] See Regulation 1173/2011, consideration 7: 'The Commission should play a stronger role in the enhanced surveillance procedure. […] When taking decisions on sanctions, the role of the Council should be limited, and reverse qualified majority voting should be used.'

[12] This applies only to the budget deficit criterion, not to the government debt criterion.

[13] See, for example, Regulation 1173/2011 Art. 6 (4) and Regulation 1174/2011 Art. 3 (6). Exceptional economic circumstances are defined in the Treaty on the Functioning of the European Union (TFEU), article 126 (2) (a) and further specified in Regulation 1467/97.

Our web dossier, EU Economic Governance, provides a summary of into the enforcement procedure, including the actors and timeframes.[14] We have also summarised the excessive deficit and macroeconomic imbalance procedure in appendices II and III of this letter.

In addition to measures to enforce budgetary discipline and macroeconomic balance in the member states, specific enforcement actions have been introduced to ensure the quality of statistics. The quality of statistics is subject to the sanction policy for the effective enforcement of budgetary surveillance in the euro area.[15] If a member state 'intentionally or by serious negligence' misrepresents deficit or debt data, the Council can decide to impose a fine. The amount of the fine shall not exceed 0.2% of the GDP of the member state concerned. The Commission may carry out all investigations necessary to establish the existence of the misrepresentations referred to above. In section 2, we look at the measures in place to assure the quality of statistics in the EU.

1.5 European economic governance and the national accounting process

The new legislation on European economic governance is directed almost entirely at the budgetary process. Little consideration is given to budgetary accountability. However, the figures used to calculate final EMU balances and MIP criteria (see section 2), for example, are derived from the accounting process. Reliable accounts are therefore essential not only to determine whether a member state remains below the threshold for house prices, unemployment, etc. (see section 1.3), but also to gain an understanding of the efforts countries have to make, the outcomes of those efforts and the possible lessons to be learnt from them. Reliable figures provide the European institutions with assurances on whether and to what extent a member state fulfils its EU obligations. We found a gap in the European legislation regarding accountability.

A more uniform approach should be taken to public accountability at government accounts level in the member states and the information should be comparable. At present, there is a great deal of variation in both the accounting systems and the date on which budget accounts are closed and when they are audited by the national audit institution (see appendix V). Fact sheet 4 of our letter to parliament, 'Input for round table discussion on modernising the Government Accounts Act', of 7 November 2013 provides further information.

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[14] See www.rekenkamer.nl/eu-governance.

[15] Regulation 1173/2011, Art. 8.

2 Quality of the underlying statistics in the EU member states

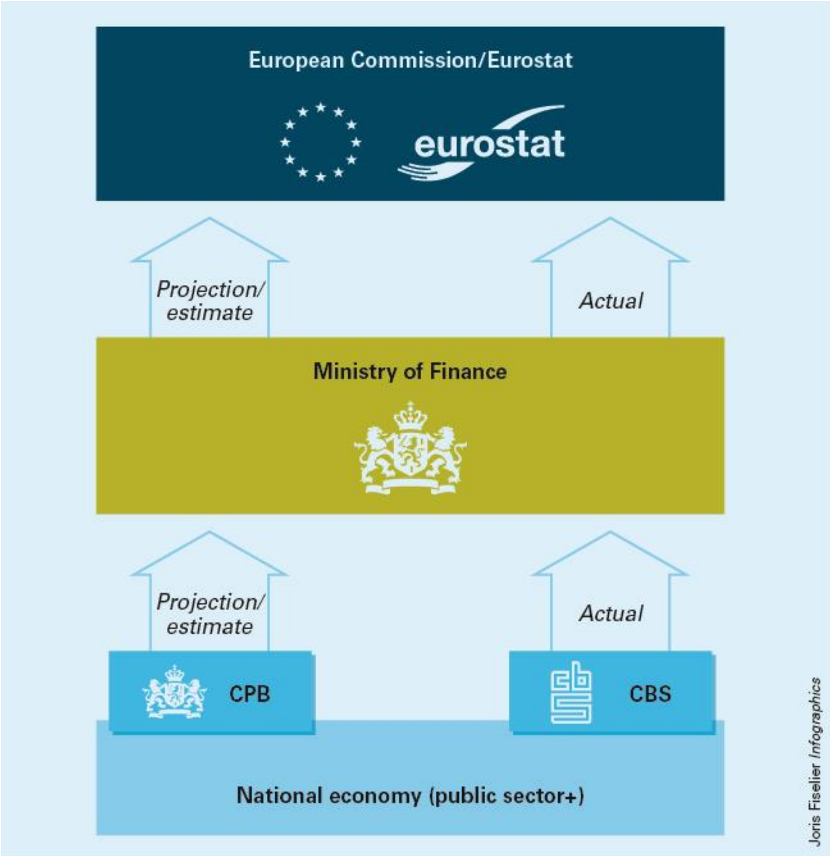
2.1 *Preparation of EMU figures*

European economic governance is underpinned by quantitative goals for the member states' budgets and macroeconomic situation. A member state must be able to make reliable forecasts of whether it will achieve the goals and comply with the agreements made. This is conditional on the member state having a national accountability framework that produces reliable outcome data. The data are also known as *EMU figures* since they are meant to be comparable across the EU member states in the Economic and Monetary Union (EMU). These are the countries that have adopted the euro as their currency. The main figures are the EMU balance (total revenue less expenditure of the government) and the EMU debt (national debt). These figures are indicative of the sustainability of public finances.

The EU has introduced legal instruments to guarantee the quality of EMU figures. The rules were tightened up and extended in the wake of the financial and economic crisis and in the light of the unreliability of Greece's EMU figures. The Regulation on the excessive deficit procedure (see also section 1.2), for example, was introduced to ensure that member states adhere to the agreements on EMU figures. Appendix IV provides an overview of European legislation in this area.

Many actors are involved in the production of EMU figures in the Netherlands. The Minister of Finance is responsible for the provision of information to the House of Representatives and the European Commission. He uses information produced by the Netherlands Bureau for Economic Policy Analysis (CPB) and Statistics Netherlands (CBS). The CPB concentrates chiefly on projections and the CBS on outcomes. The outcome figures are based on financial information derived from accounts and financial statements. The CBS collects, verifies, analyses and consolidates the information and publishes the outcome figures. The Minister of Finance then sends the figures to Eurostat, the EU's statistics institute. Its task is to compile statistics at EU level. Eurostat assesses the completeness, reliability, validity and consistency of the national statistics and determines whether the member states have observed the accounting rules. Eurostat needs reliable statistical information to determine whether the member states satisfy the budgetary discipline requirements.

Figure 3 Actors in the preparation and verification of national EMU figures



2.2 *Harmonisation of data*

Effective comparisons between EU countries and regions are possible only if Eurostat uses a harmonised methodology. Its methodology is based on the European Statistical System (ESS) and the European System of Accounts (ESA).[16] The ESS is a partnership between Eurostat, the national statistical institutes and other national authorities responsible for statistics. The ESA contains common rules on how economic activities, including the EMU figures, have to be reported upon in national accounts. The ESA sets common standards and definitions that must be used to prepare statistical accounts, including those for government revenue and expenditure and the government deficit.[17]

[16] The ESA was introduced in 1995 and recently revised. The revised system, ESA 2010, will come into force in the member states in 2014.

[17] Classification of an institutional unit as a public or market party depends upon the organisation in the member state. An example is the classification of a port or public transport organisation. It must be determined where control lies and what the revenue from market activities is. An applicable standard is that when the

2.3 *Preparation of EMU figures in the Netherlands*

In accordance with European legislation, we distinguish three subsectors in the *government* sector: central government, local government and social security funds. The reporting rules in the Netherlands differ for these three sectors and are not consistent with the ESA. The information obtained therefore cannot be compared. It is difficult for the Netherlands to provide more assurance using consolidated information. The *Information from third parties* statements issued by local governments, which contain the information used to calculate the EMU figures, are not audited. The annual accounts are audited and an auditor's report is issued on them. Furthermore, the annual closing of healthcare figures is not reliable. The CBS checks the figures it receives and corrects them where necessary to produce high quality EMU figures. Continuous attention must be paid, however, to the quality of the source data.[18]

2.4 *Comparable and reliable*

The international comparability and reliability of statistical data are not automatically guaranteed. The data, however, are essential to gain a reliable understanding of the sustainability of public finances in the EU member states. We therefore recommended in an earlier report[19] that the Ministers of Foreign Affairs, Economic Affairs and Finance investigate how more assurance could be obtained on the basic data that serve as input for the statistics. In response to our report, the government stated that it saw no need for such an investigation. The main reason for this, according to the government, was that the basic data underlying the statistics were already subject to several checks. The CBS carries out statistical analyses of the basic data and calculates gross national income (GNI) in accordance with European legislation. Eurostat, the EU statistics institute, reviews the GNI calculations. We note that the European Court of Auditors stated in 2011 that its audit did not include an opinion on the quality of the VAT and GNI data that the European Commission received from the member states.[20]

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revenue from market activities covers more than 50% of the costs, the institutional unit is classified as a market party. If less than 50% of the costs are covered by market activities, it is a public party.

[18] A technical explanation in the CBS's press release of 29 March 2013 considers the revision of 2014. The government deficit has probably been about €1 billion higher than thought since 2006 chiefly because of the lack of direct basic data on primary education in the past and the marked differences between the data provided by the Netherlands Education Agency (DUO) and by the Labour Accounts, municipal accounts and central government financial statements. New and improved source data available since 2007 cannot be used directly owing to the continuity strategy of the national accounts.

[19] EU Trend Report 2013, Parliamentary Papers, 33 523, no. 1.

[20] European Court of Auditors, Annual Report of the Court of Auditors on implementation of the budget concerning the financial year 2010, Luxembourg, Official Journal C 326/01 of 10 November 2011.

3 Position of supreme audit institutions

The two pack regulations to strengthen budgetary discipline in the member states have given a special role to the supreme audit institutions of the euro countries.[21] The European Commission can ask the supreme audit institution in a member state with an excessive deficit to cooperate in an audit of government accounts. Although the regulations do not impose a legally enforceable obligation on supreme audit institutions, they are not beyond criticism. The independence of supreme audit institutions should be guaranteed at all times. Where a supreme audit institution works in cooperation with or at the request of a supranational institution such as the European Commission, institutional relations could be distorted at both national and European level. Furthermore, the wording of the Regulation does not explain the precise nature of the cooperation. We would stress the importance of clarifying the rules, which were introduced without consultation with the supreme audit institutions themselves.

European economic governance in the context of the European Semester entails further reporting and accountability requirements for the EU member states. In an EU context, the supreme audit institutions are working closely together to bring about a more uniform framework to account for budgets. Coordination of economic and budgetary policy in the EU, after all, follows the national budget cycle.

4 Conclusion and points for consideration

The instruments to strengthen budgetary discipline and macroeconomic surveillance differ in the extent to which the obligations are *mandatory* or when a divergence from the reference values is permitted. The Regulations and Directives also address different target groups: all EU member states, euro countries or, in the case of the TSCG, 25 member states.[22] The most important recent *formal* changes to national budget processes mean that parliament must adopt the budget before the end of the year.

We would make the following comments.
Firstly, each recommendation made by the Economic and Financial Affairs Council (Ecofin) to a member state should clearly explain the context in which it is made, preventive or corrective, mandatory or not (see figure 1). This would help clarify parliament's potential response. Some recommendations oblige member states to take

[21] Regulation 473/2013 Art. 10-6 (a).

[22] The Czech Republic, Croatia and the United Kingdom have not signed this treaty.

measures, as in the excessive deficit procedure. Others arise from the European Semester and are usually not binding or mandatory.

Secondly, the calculation of the EMU balance and the EMU debt is complicated by the different reporting rules in place for the various sectors. Simple reporting rules are a precondition for comparable and reliable data at both national and European level. Moreover, the member states should render account specifically on the EMU figures of the various government sectors and carry out appropriate external audits. This would improve the quality of the data used. Ecofin and subsequently the European heads of government use these data to determine whether the Netherlands and other member states satisfy the requirements of budgetary discipline and the medium-term objective.

Thirdly, the new European legislation to strengthen coordination and surveillance of the *budgets* and *macroeconomic policies* of EU member states contains no measures to harmonise and tighten up national *accountability processes*. As a result, there is a lack of reliable information on how the Council's recommendations further to the European Semester are being followed up in practice by the member states and what improvements have been made.

Fourthly, assurance should be given on the quality of information provided to parliament on the development of European economic governance. This is principally a national affair and democratic control of the implementation of European legislation in this field remains important. The same is true of the quality of proposals for new or amended legislation on European economic governance, with particular attention needing to be paid to the consistency and coherence of legislation.

Finally, we would draw attention to the position of supreme audit institutions in the EU member states. They have become part of the measures taken at EU level to combat the financial and economic crisis. It would be welcome if the supreme audit institutions were consulted by their national governments when Brussels prepares new legislation that affects their work and independence.

We shall send a copy of this letter to the President of the House of Representatives.

Saskia J. Stuiveling,
President

Ellen M.A. van Schoten,
Secretary General

Appendix I Components and key obligations of European economic governance

Component	Legislative or other instrument	Main obligations for EU member states	Main obligations for EU institutions	Preventive or corrective action
Budgetary surveillance	Preventive arm SGP: MTO Reg. 1466/97 Applies to: EU 28 Since: 1997	*Submission of stability and convergence programme (SCP) with medium-term objective (MTO) for the budget.	*Council and Commission: review SCPs and oversee their implementation. *Council (on a Commission proposal): make country specific recommendations based on SCPs, annually in May/June.	Preventive
	Corrective arm SGP: EDP Reg. 1466/97 Applies to: EU 28, partially to EU 17 Since: 1997	*In the case of an excessive deficit procedure (EDP): follow Council recommendations and/or formal notices until the excessive deficit is corrected.	*Council (on the advice/proposal of the Commission): establishes the excessive deficit, makes recommendations and/or issues formal notices – suspension in exceptional economic circumstances – until excessive deficit is corrected.	Corrective
	TSCG International treaty Applies to: 25 EU member states Since: 2012	*Transpose MTO standard and automatic correction mechanism in national legislation (NL: HOF Act). *In the case of an excessive deficit procedure (EDP): submit economic partnership programme (EPP), outlining measures and reforms necessary for correction.	*Commission: determines whether implementation is correct. *In the case of an excessive deficit procedure (EDP): Council and Commission review EPPs, oversee their implementation (and issue recommendations/formal notices until ED is corrected).	Preventive (MTO) and corrective (EDP)
	Two pack Reg. 473/2013 Applies to: EU 17 Since: 2013	*No later than 30 April each year, submit national budget plans for MTO; no later than 15 October, submit a draft budget for year N +1; adopt final budget no later than 31 December OR, if not possible, commence reversionary budget procedures. *In the case of an excessive deficit procedure: submit an economic partnership programme (EPP).	*Commission and euro group: monitor and review draft budget plans. *In the case of an excessive deficit procedure: Council and Commission: review EPPs, oversee their implementation (and make recommendations/issue formal notices to correct excessive deficit).	Corrective

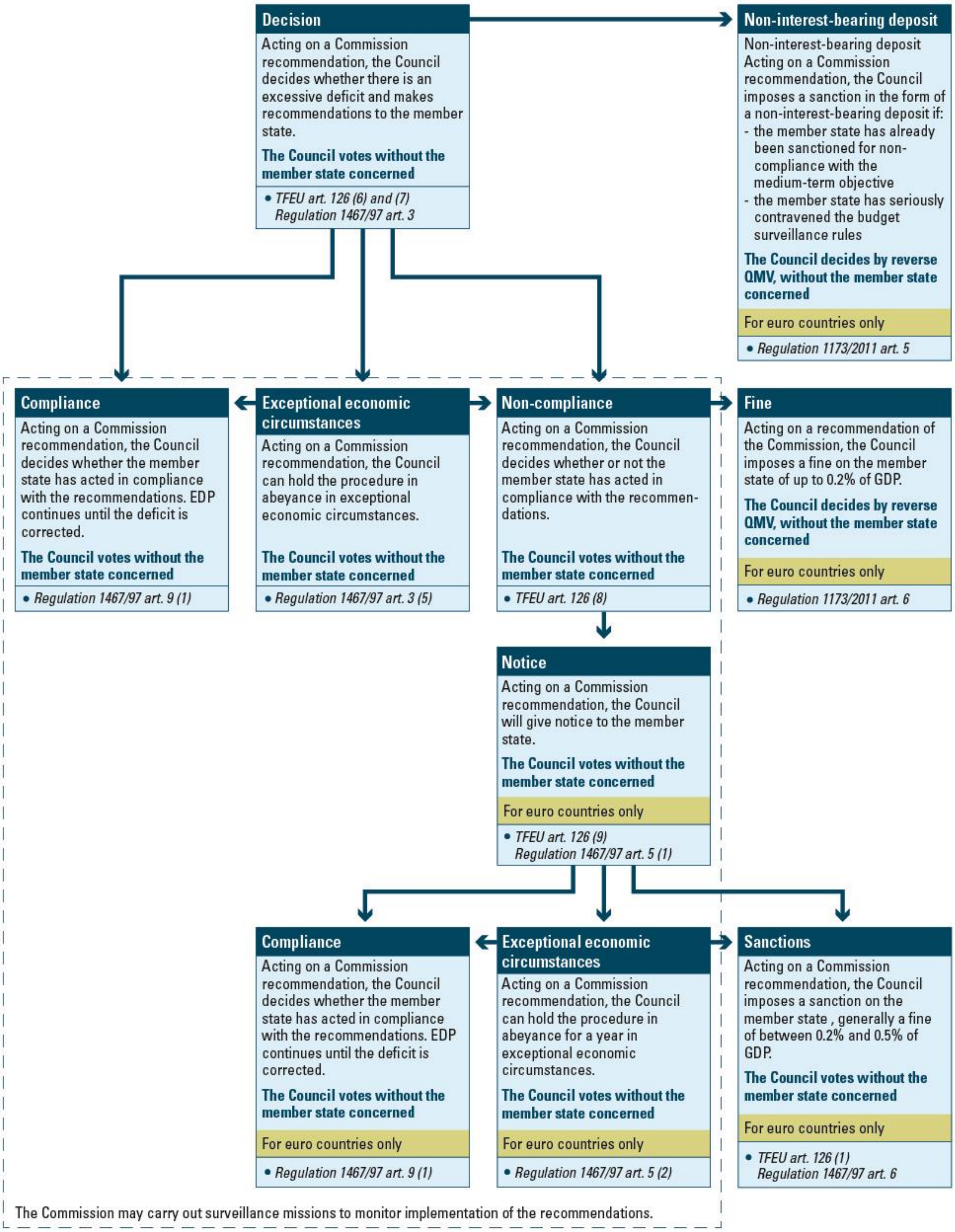
	Two pack Reg. 472/2013 Applies to: EU 17 Since: 2013	*Where subject to enhanced surveillance and financial support has been requested: submit macroeconomic partnership programme (MPP) (to replace EPP; exemption from submission of SCP).	*Commission: places a member state that is in or in danger of being in exceptional economic circumstances under enhanced economic and budgetary surveillance. *Where subject to enhanced surveillance and financial support has been requested: Council and Commission: review MPPs, oversee implementation of MPPs.	Corrective
Macroeconomic surveillance	MIP Reg. 1176/2011 Applies to: EU 28 Since: 2011	*In the case of an imbalance: follow Council recommendations until macroeconomic imbalance is corrected.	*In the case of an imbalance: Council (on a Commission proposal): makes country-specific recommendations based on outcomes of thorough evaluations of member states that may have macroeconomic imbalances, annually in May/June.	Preventive
		*In the case of an excessive imbalance: submit plan with corrective measures; implement corrective measures until excessive imbalance is corrected.	*In the case of an excessive imbalance: Council (on a Commission proposal): establishes excessive imbalance, oversees implementation of corrective measures.	Corrective
Thematic coordination	EU 2020 Commission Communication based on Council Decision and Council recommendation Applies to: EU 28 Since: 2010	*Submit National Reform Plan (NRP) with proposals for structural reforms in accordance with employment guideline and broad economic policy guidelines.	*Council and Commission: review NRPs and oversee their implementation. *Council (on a Commission proposal): makes country specific recommendations based on NRPs, annually in May/June.	Preventive

Appendix II Excessive deficit procedure

The EU oversees the member states' budgets. The second component of this oversight, known as the corrective arm of the Stability and Growth Pact, consists of the excessive deficit procedure. Member states can be placed in this procedure when their government deficit exceeds 3% of their GDP or their government debt exceeds 60% of GDP. Measures must be taken to correct an excessive deficit or debt.

Voting procedure in Ecofin

In principle, the Council votes by qualified majority (QMV), unless stated otherwise. The member state concerned does not vote. Where the rules apply to euro countries, only euro countries vote in the Council. In reverse QMV, a Commission proposal is automatically adopted by the Council unless the Council votes against it by qualified majority.


Decision
Acting on a Commission recommendation, the Council decides whether there is an excessive deficit and makes recommendations to the member state.
The Council votes without the member state concerned
• TFEU art. 126 (6) and (7)
Regulation 1467/97 art. 3
Non-interest-bearing deposit
Non-interest-bearing deposit
Acting on a Commission recommendation, the Council imposes a sanction in the form of a non-interest-bearing deposit if:
- the member state has already been sanctioned for non-compliance with the medium-term objective
- the member state has seriously contravened the budget surveillance rules
The Council decides by reverse QMV, without the member state concerned
For euro countries only
• Regulation 1173/2011 art. 5
Compliance
Acting on a Commission recommendation, the Council decides whether the member state has acted in compliance with the recommendations. EDP continues until the deficit is corrected.
The Council votes without the member state concerned
• Regulation 1467/97 art. 9 (1)
Exceptional economic circumstances
Acting on a Commission recommendation, the Council can hold the procedure in abeyance in exceptional economic circumstances.
The Council votes without the member state concerned
• Regulation 1467/97 art. 3 (5)
Non-compliance
Acting on a Commission recommendation, the Council decides whether or not the member state has acted in compliance with the recommendations.
The Council votes without the member state concerned
• TFEU art. 126 (8)
Fine
Acting on a recommendation of the Commission, the Council imposes a fine on the member state of up to 0.2% of GDP.
The Council decides by reverse QMV, without the member state concerned
For euro countries only
• Regulation 1173/2011 art. 6
Notice
Acting on a Commission recommendation, the Council will give notice to the member state.
The Council votes without the member state concerned
For euro countries only
• TFEU art. 126 (9)
Regulation 1467/97 art. 5 (1)
Compliance
Acting on a Commission recommendation, the Council decides whether the member state has acted in compliance with the recommendations. EDP continues until the deficit is corrected.
The Council votes without the member state concerned
For euro countries only
• Regulation 1467/97 art. 9 (1)
Exceptional economic circumstances
Acting on a Commission recommendation, the Council can hold the procedure in abeyance for a year in exceptional economic circumstances.
The Council votes without the member state concerned
For euro countries only
• Regulation 1467/97 art. 5 (2)
Sanctions
Acting on a Commission recommendation, the Council imposes a sanction on the member state , generally a fine of between 0.2% and 0.5% of GDP.
The Council votes without the member state concerned
For euro countries only
• TFEU art. 126 (1)
Regulation 1467/97 art. 6
The Commission may carry out surveillance missions to monitor implementation of the recommendations.

Appendix III Macroeconomic imbalance procedure

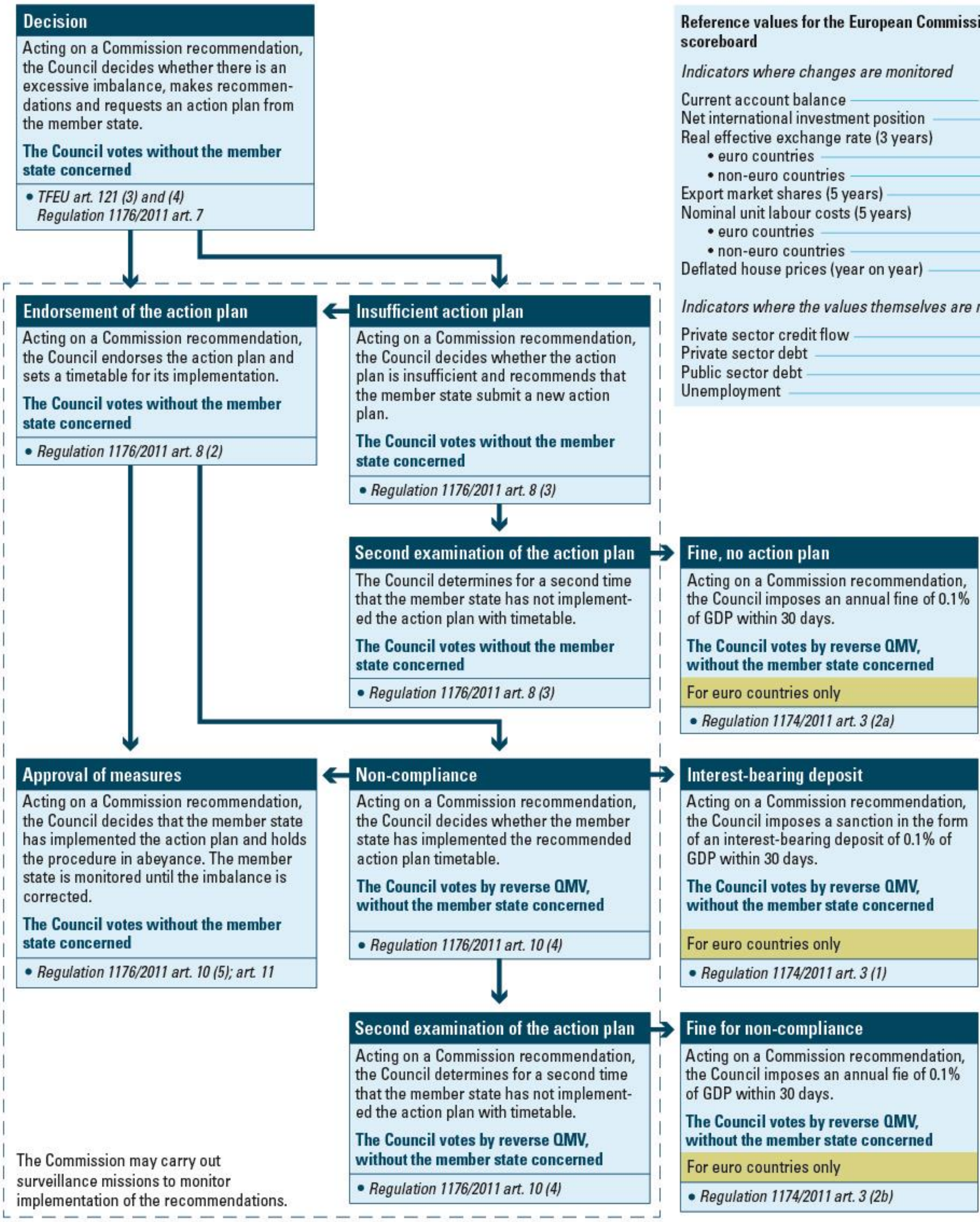
The EU oversees the macroeconomic situation in the member states. The Commission monitors a number of indicators for each member state using a scoreboard. If it finds that a member state has exceeded the agreed reference values, it can carry out an investigation. It can then propose to the Council that an excessive macroeconomic imbalance procedure be initiated for the member state to correct the excessive imbalance.

Voting procedure in Ecofin

In principle, the Council votes by qualified majority (QMV), unless stated otherwise. The member state concerned does not vote. Where the rules apply to euro countries, only euro countries vote in the Council. In reverse QMV, a Commission proposal is automatically adopted by the Council unless the Council votes against it by qualified majority.

Reference values for the European Commission's scoreboard

Indicators where changes are monitored	
Current account balance	+6%/-4%
Net international investment position	-35%
Real effective exchange rate (3 years)	
• euro countries	+/-5%
• non-euro countries	+/-11%
Export market shares (5 years)	-6%
Nominal unit labour costs (5 years)	
• euro countries	+/-5%
• non-euro countries	+12%
Deflated house prices (year on year)	+6
Indicators where the values themselves are monitored	
Private sector credit flow	15%
Private sector debt	160%
Public sector debt	60%
Unemployment	10%



Appendix IV Quality assurance of EMU data in European law

Directive / Regulation	**Purpose**
Regulation 1173/2011	➢ Effective enforcement of budgetary surveillance. Art. 8 (3) lays down the Commission's powers to conduct investigations. 'The Commission may conduct all investigations necessary to establish the existence of the misrepresentations referred to in paragraph 1. It may decide to initiate an investigation when it finds that there are serious indications of the existence of facts liable to constitute such a misrepresentation. The Commission shall investigate the putative misrepresentations taking into account any comments submitted by the Member State concerned. In order to carry out its tasks, the Commission may request the Member State to provide information, and may conduct on-site inspections and accede to the accounts of all government entities at central, state, local and social-security level. If the law of the Member State concerned requires prior judicial authorisation for on-site inspections, the Commission shall make the necessary applications.'
Directive 2011/85	➢ Requirements for budgetary frameworks of the member states. Member states must provide information on the development of the government deficit and government debt more quickly. They must disclose the risks that government institutions are exposed to (e.g. on the guarantees they have given). Member states must provide satisfactory assurances on the quality of statistical sources by means of audits and controls.

Regulation 473/2013	➢ Provisions for monitoring and assessing draft budgetary plans. In the case of an excessive deficit: Where a member state is placed under enhanced monitoring, it must make a comprehensive evaluation of the government and its subsectors' budget implementation during the year. The evaluation must also consider the financial risks associated with government entities and contracts in so far as they can contribute to an excessive deficit. On request and within the term set by the Commission, a member state placed under enhanced monitoring must: (a) carry out and report on a comprehensive independent audit of the public accounts of all subsectors of the general government conducted preferably in coordination with national supreme audit institutions, aiming to assess the reliability, completeness and accuracy of those public accounts for the purposes of the excessive deficit procedure. In this regard, the Commission (Eurostat) shall assess the quality of the statistical data reported by the member state concerned in accordance with article 16 of Commission Regulation 679/2010: '1. Member States shall ensure that the actual data reported to the Commission (Eurostat) are provided in accordance with the principles established by Article 2 of Regulation (EC) No 223/2009. In this regard, the responsibility of the national statistical authorities is to ensure the compliance of reported data with Article 1 of this Regulation and the underlying ESA 95 accounting rules. Member States shall ensure that the national statistical authorities are provided with access to all relevant information necessary to perform these tasks. 2. Member States shall take appropriate measures to ensure that institutions and officials responsible for the reporting of the actual data to the Commission (Eurostat) and of the underlying government accounts are accountable and act in accordance with principles established by Article 2 of Regulation (EC) No 223/2009.'
Proposal to amend Regulation (EC) no. 223/2009 (European statistics)	➢ Requirements for national statistics institutes. Introduction of a Commitment on the Confidence of Statistics. The Commission regularly checks European statistics based on the member states' annual reports.
Regulation (EU) no. 99/2013 European Statistical Programme 2013-2017	➢ Rules for national statistical production processes. 'Each member state shall endeavour to ensure that its statistical production processes are set up in a standardised manner and are enhanced, to the extent possible, by audit mechanisms.'

Appendix V Accounting systems and accountability in the EU[23]

	Accounting system (accrual, cash or mixed)	Financial year closed in 2013	Account rendered and opinion expressed by SAI
▶ Austria	Mixed (2012) Accrual (2013)	2012	After September t+1
▶ Belgium	Accrual	2012	After June t+1
Bulgaria	Mixed	2012	After September t+1
Croatia	Mixed	2012	June t+1
▶ Cyprus	Mixed	2012	Autumn t+1
Czech Republic	Accrual	2012	May t+1
Denmark	Accrual	Closed: 2011 Debated: 2012	March t+2
▶ Estonia	Accrual	2012	After August t+1
▶ Finland	Accrual	2012	No formal discharge procedure SAI report in May t+1
▶ France	Accrual	2012	Before June t+1
▶ Germany	Cash	2012	October t+1
▶ Greece	Accrual	Closed: 2011 Debated: 2012	After September t+1
Hungary	Cash	2012	After August t+1
▶ Ireland	Cash	2011	Unknown
▶ Italy	Cash	2012	Unknown
Latvia	Mixed	2012	September t+1
Lithuania	Accrual	2012	After September t+1
▶ Luxembourg	Cash	2012	December t+1
▶ Malta	Mixed	Closed: 2011 Debated: 2012	t+2
▶ Netherlands	Mixed	2012	Before summer t+1
Poland	Mixed	2012	July t+1
▶ Portugal	Cash	2012	Unknown
Romania	Accrual	2011	Unknown
▶ Slovenia	Accrual	2012	After September t+1
▶ Slovakia	Accrual	2012	June t+1
▶ Spain	Accrual	2011	After October t+1
Sweden	Accrual	2012	After May t+1
United Kingdom	Accrual	1 April 2012-31 March 2013	After June t+1

▶ = Member state euro area

Joris Fiselier *Infographics*

The table shows that slightly more than half of the member states (euro area and non-euro area) use an accrual accounting system. Austria changed from a mixed system to

[23] This English translation contains two corrections. In the original Dutch version, the German accounting system was said to be a mixed system instead of a cash system and Italy's financial year closed in 2013 was said to be 2011 instead of 2012. These errors have been corrected in the table as well as in the text below it.

an accrual system in 2013. The cash accounting system is used by six member states, five of which are in the euro area.

The majority of member states (21 of the 28) close their financial accounts in t+1. Six of the 28 member states do so in t+2 (Denmark, Greece, Ireland, Malta, Romania and Spain). The United Kingdom is the only EU member state whose financial year does not coincide with the calendar year (its financial year runs from 1 April to 31 March).

The discharge procedure is completed in t+1 in 21 of the 28 member states. Finland does not have a formal discharge procedure; four countries provided no information, and the discharge procedure in Denmark and Malta is completed two years after the financial year (t+2). In 15 countries it is completed in the autumn and in seven in the spring.

Appendix VI Abbreviations

CBS	Statistics Netherlands
Council	Economic and Financial Affairs Council of the European Union
CPB	Netherlands Bureau for Economic Policy Analysis
Ecofin	Economic and Financial Affairs Council
EDP	Excessive deficit procedure
EMU	Economic and Monetary Union
EPP	Economic Partnership Programme
ESA	European System of Accounts
ESS	European Statistical System
EU	European Union
GDP	Gross domestic product
GNI	Gross national income
HOF	Sustainable Public Finances Act
MIP	Macroeconomic imbalance procedure
MPP	Macroeconomic Partnership Programme
MTO	Medium-term objective
NRP	National Reform Programme
QMV	Qualified Majority Voting
SCP	Stability and Convergence Programme
SGP	Stability and Growth Pact
SP	Stability Programme
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union
VAT	Value added tax