Algemene Rekenkamer

200 1814 – 2014

European Economic Governance

European coordination of budgetary and macro-economic policies and the position of the Netherlands

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The original text of *Europees economisch bestuur; Europese coördinatie van begrotings- en macroeconomisch beleid en de positie van Nederland* was adopted on 5 September 2014.
The report was presented to the Dutch House of Representatives on 9 September 2014.

Contents

Foreword: the governance of the European Union

The European Union (EU) has undergone fundamental economic and budgetary change since the beginning of the 1990s. The ambition of the Economic and Monetary Union (EMU) was set out in the Maastricht Treaty of 1992 and the single currency was introduced in 2002. The euro had become legal tender in 18 of the current 28 EU member states by 2014. The participants in the euro area (the so-called Eurozone) are highly dependent on each other, share common interests and have a constant aspiration to strengthen the EMU.

In parallel with these developments, a common EU policy has arisen on economic and budgetary matters to strengthen EMU wherever possible. But policy tensions are evident between the member states' desire to retain as much autonomy as possible and the understanding that common, strict rules on compliance and enforcement are necessary to guarantee healthy financial policies in the member states and the stability of EMU. The tensions can be seen in the compromises made in agreements: there are binding EU instruments such as the Stability and Growth Pact (SGP) on the one hand and 'soft law' such as the Europe 2020 strategy on the other. The latter also relies on 'soft' coordination and steering mechanisms such as peer review and naming and shaming of EU member states.

The interests of the Netherlands, like those of all EU member states, are twofold. On the one hand, it benefits from the proper functioning of the EMU and the euro area. Clear and effective procedures, rules and agreements are needed to foster confidence in the governance of the EU and underpin both economic performance and the sustainability of public finances. On the other hand, the Netherlands has agreed to implement its macroeconomic and budgetary policies in accordance with the applicable rules and can be assessed on these rules. This can have consequences for the autonomy of national financial policies.

Consideration must be given to the consequences of European economic governance for the national budget and accounting process. In this respect, the budget right (of parliament) and the relationship between the government and the States General are pre-eminently a matter for the Netherlands Court of Audit.

Since the outbreak of the financial and economic crisis in autumn 2008 the system has been under pressure, flaws have been revealed in the design of the EMU and especially the euro area and loopholes in EU legislation have been exploited. It has become evident that some countries do not comply with the common rules and the EU does not enforce them strictly.

Regular discussions have been held on whether strict compliance and enforcement of the rules on budgetary surveillance would be economically wise. The discussions have had a significant influence on the more flexible application of budgetary rules in the immediate aftermath of the 2008 financial crisis. To meet the perceived need to respond to the highly detrimental economic effects of the crisis, deficits were permitted even if they exceeded the reference values laid down in the SGP.

In response to the financial and economic crisis, the EU - and within it the members of the euro area - rapidly launched a succession of legislative and policy initiatives. To combat the crisis European support programmes were developed and emergency measures were established in consultation with the IMF to support the member states and the euro. A banking union is about to be launched to place significant banks in the euro area under the surveillance of the European Central Bank as from November 2014.

The European Central Bank has also used monetary programmes to help combat the crisis. New economic and budgetary rules have been introduced to strengthen the EMU: rules to strengthen the EU's budgetary surveillance of the member states and rules to establish macroeconomic surveillance of the member states. A new cyclical European coordination mechanism, the European Semester, has also been created. Whether this package of measures and initiatives will have the desired effect and return the member states to the path of sustainable economic growth and public finances still remains to be seen.

This report considers the new economic and budgetary rules to further strengthen the EMU. The new rules also have a direct impact on Dutch budgetary and macroeconomic policies and the government's accountability for them. As an EU and eurozone member state, the Netherlands has a significant interest in a stable and prosperous euro area. Its interests are served by the correct and effective functioning of economic governance in the EU.

It goes without saying that the governance of the EU will be centre stage in the years ahead. Economic governance has been strengthened but it is still being developed in many areas and new rules, procedures, positions and relationships are still being fleshed out. In the near future, too, it may be asked whether European economic governance and its component parts are fit for purpose.

This reports looks at the current and new rules and procedures for budgetary surveillance and the new agreements on macroeconomic surveillance. As noted, the Netherlands benefits from transparent, unambiguous and effective procedures. Until recently, Dutch budget policy was subject to enhanced surveillance by the European Commission owing to budgetary problems in central and decentral government. The Dutch parliament has indicated to the Netherlands Court of Audit on several occasions that it requires greater insight into the operation of the procedure. We also used this study to cast more light on the potential influence of the new EU rules on the national budgetary and accounting process and the role played in it by various national institutions.

The Netherlands Court of Audit hopes this study will increase insight into the dynamism and influence of existing and new EU rules on the Dutch budget and accounting process, democratic accountability and the role of several national institutions. The rules affect the position of parliament, which authorises budgetary and macroeconomic policies and approves the budget. Furthermore, the new EMU arrangements must still prove themselves in practice and their contribution to bolstering confidence in the EU and, within it, the euro area must be seen in the years ahead.

There are several dimensions to this problem. The government and States General receive advice on macroeconomic and budget policies in a variety of ways and from a variety of institutions. The institutions include the Netherlands Bureau for Economic Policy Analysis (cpb), the Dutch central bank (dnb), the Council of State and the Netherlands Court of Audit itself. It would be wise to consider in good time whether and how the new eu rules will change their role and what their role should be.

1 Introduction

1.1 Background

Since the Treaty of Maastricht introduced Economic and Monetary Union in 1992, there has been a common EU policy on macroeconomic and budgetary matters. The policy has gradually been extended. This common policy - known as European economic governance (EEG) - consists not only of top down surveillance and binding EU instruments but also of soft coordination and steering mechanisms ('soft law').

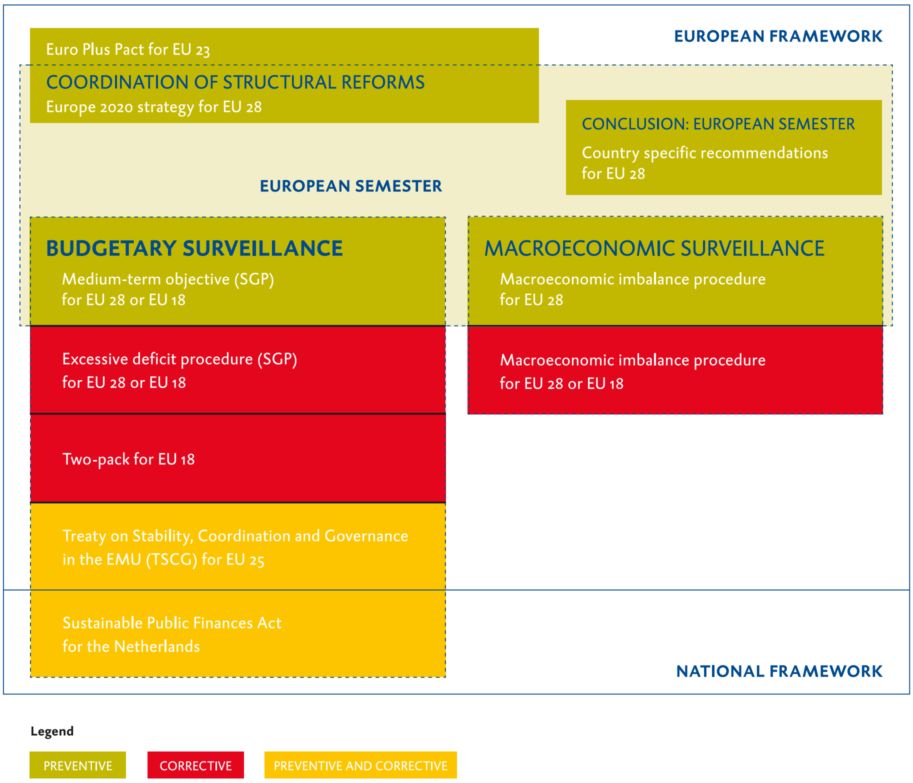
The outbreak of the financial and economic crisis in 2008 tested the EU mechanisms to supervise and coordinate macroeconomic and budget policies to the limits and exposed shortcomings. The European Commission presented a strategy to strengthen European economic governance in 2010 (European Commission 2010a, 2010b).[1] The strategy was the first step towards a rigorous and more comprehensive system of cooperation (European Commission, 2008) to address the crisis effectively, limit or prevent spill-over effects and ultimately ensure financial stability and economic growth in the EU and specifically in the euro area.

Since then, European economic governance has been founded on three pillars: budgetary surveillance, macroeconomic surveillance and the coordination of structural reforms (socioeconomic policies), as shown in figure 1.

Figure 1 also shows that some of the rules are preventive, some are corrective and some are both. The preventive rules come together in the European Semester, a cyclical mechanism that the European Commission has used since 2011 to coordinate the EU member states' economic and budgetary policies.

1 See Commission Communication of 29 September 2010 (COM(2010) 522-527 final).

Figure 1 Key components of European economic governance in 2013



According to the European Council, the European Semester has a complicated legal structure that combines procedures in three complex policy fields with divergent levels of non-binding interaction or coordination and binding surveillance. The structure, moreover, is still being developed (Council of the European Union, 2012).[2] Other potential complications or uncertainties of European economic governance relate to the fact that the rules are subject to different legal regimes[3] that apply to different groups of member states (to all 28 EU countries, to 25 or 23 EU countries, to the 18 countries of the euro area, or to individual member states).

1.2 Object of the study

This study considers EU policies aimed at strengthening European economic governance applied since 1992 and, in particular, the policy intensification that began in 2010. We look at these policies in the light of the generally accepted principles of good governance. The Netherlands Court of Audit's strategy for 2010-2015 is based on the characteristics of good governance identified by the United Nations. The characteristics relevant to this study are: transparency, public accountability and effectiveness and efficiency. We also checked the functioning of the policies against the requirements laid down in EU legislation. We considered the operation of the EU rules and instruments in practice regarding:

- surveillance of the EU member states' national budgetary discipline;
- surveillance of the EU member states' macroeconomic policies;
- coordination of structural reforms in the EU member states in the context of the Europe 2020 strategy;

2 Accessed via http://register.consilium.Europe.eu/doc/srv?l=EN&f=ST%2015674%202012%20INIT.

3 The TSCG, for example, is an international treaty and not formally part of the European legal order. The other instruments and procedures in the ´European framework´ shown in figure 1 are laid down in EU regulations, directives or communications.

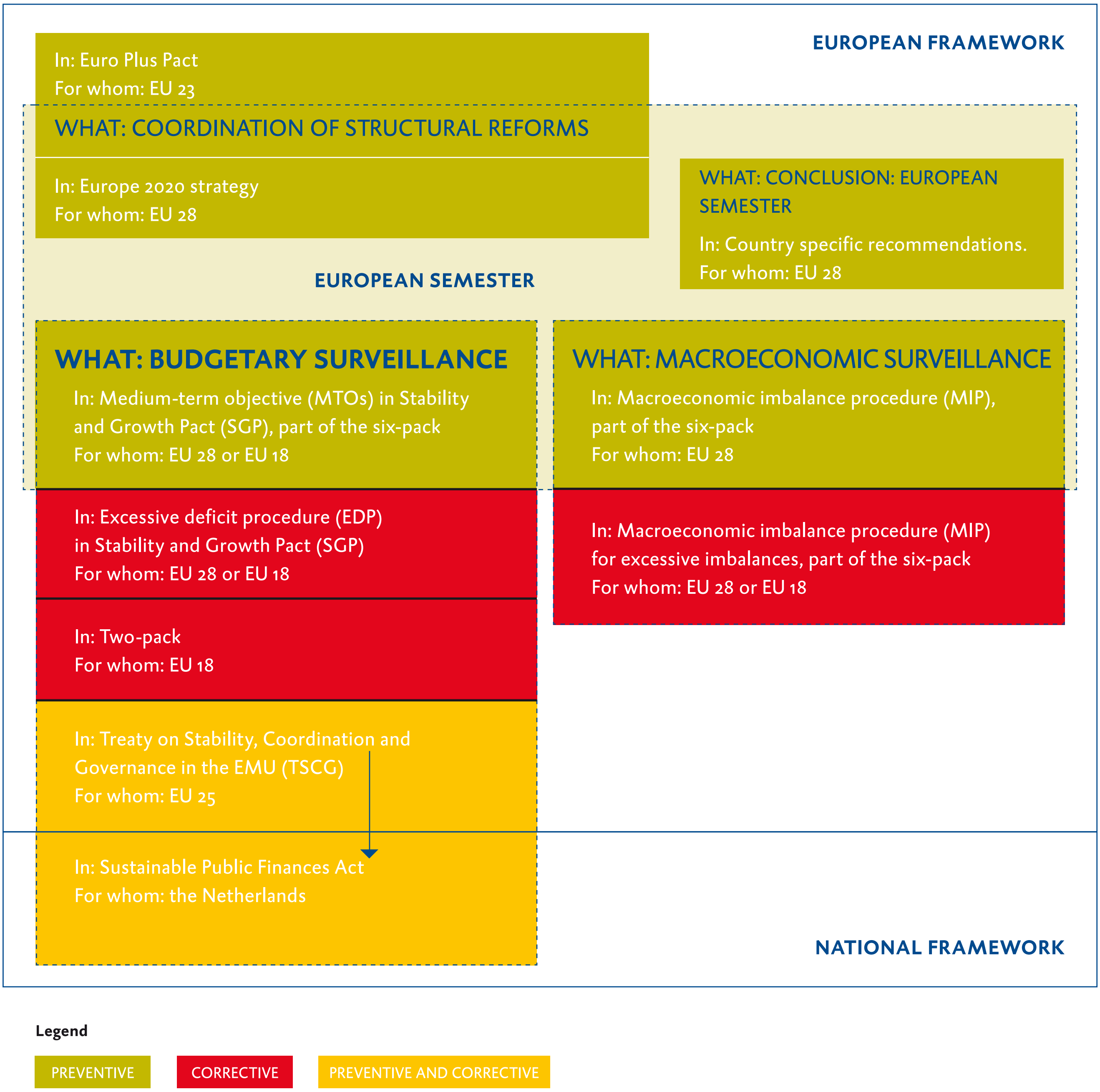
- the annual country specific recommendations made by the EU to the member states in the framework of the European Semester.

1.3 Structure of this report

Chapter 2 outlines the European economic governance legislation and policies 'on paper'. Chapter 3 explains how the rules work in practice in the EU member states. Chapter 4 shows what effect the rules will have on the budgetary and accounting processes in the Netherlands. Chapter 5 closes with findings and comments and the response of the government.

A more detailed summary of the main rules and agreements in the pillars of European economic governance is presented in figure 2.

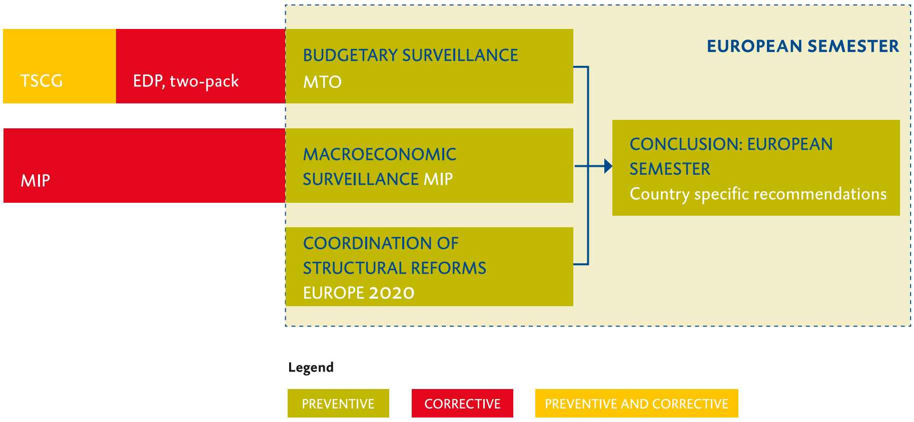
Figure 2 components and key obligations of European economic governance in 2013



2 Rules of European economic governance

This chapter outlines the structure of the current system of European economic governance (EEG), as shown in figure 3. The description combines the chronology of the EEG rules with a thematic summary of the various components. We then turn to the legal enforceability of the rules, reporting obligations and opportunities for control and accountability.

Figure 3 Key components of EEG in 2013



Key components

Patchwork of EU rules, more opportunities for coordination and surveillance in the EU

The process of strengthening European economic governance is one of evolution. The foundations have changed little since 1992. In broad lines, only the ability to impose financial sanctions has been extended and defined more precisely. The rules that have been introduced apply to the EU 28 or to 25 of the 28 member states or to 23 of the 28 member states or to the 18 euro countries. The resultant system of laws and rules is inevitably complex. Depending on the difficulties faced by individual member states due to the financial crisis, the member states have also seen an increase in their EU reporting obligations and in the coordination and surveillance of their policies by EU institutions.

Little consideration of control and accountability of the euro 18

The new legislation on European economic governance pays little attention to control and accountability and related figures. Influence and decision-making on European economic governance have been shifted largely from the EU 28 to the euro 18 (Eurogroup or Ecofin Council in the euro configuration). The customary arrangements of democratic control and accountability in place for the EU 28 do not formally apply to the Eurogroup or its President. The Eurogroup is not publicly accountable to any parliamentary institution. Apart from the opportunities offered by 'economic dialogue', there is no structural flow of information in which the Eurogroup renders formal account.

Financial sanctions confined to euro 18
Financial sanctions can be imposed only on the euro 18. The European Commission has gained more power in decision-making processes on surveillance, enforcement and sanctions since 2011; there are more opportunities for supervision by the Commission, and reversed qualified majority voting (QMV) has been introduced in the Council. The Council is expected to accept the Commission's proposals more frequently than in the past because of reversed QMV. The Council still takes the final decision, however, and the decision is the outcome of political deliberation.

Not all rules are legally binding and enforceable
The extent to which the rules are legally binding and enforceable - the extent to which EU member states/euro countries must ultimately comply with the rules and agreements and the extent to which there is access to the European Court of Justice (ECJ) to demand enforcement - differs from one component to another. In most cases, the preventive components of EEG policies are binding and enforceable. The corrective components for budgetary surveillance, by contrast, are not enforceable or have only limited enforceability.

Lack of uniform reporting rules
For budgetary discipline and macroeconomic surveillance purposes, transparent, reliable and comparable figures are needed to determine the financial situation in each member state. The EU public sector reporting rules must therefore be uniform. To this end, the European Public Sector Accounting Standards (EPSAS) have been developed but the member states have not yet taken a political decision on them.

2.1 European economic governance

2.1.1 Rules before the financial and economic crisis

Treaty of Maastricht
The Treaty of Maastricht came into force on 1 November 1993. It laid down, among other things, that the internal market would be completed with the introduction of Economic and Monetary Union (EMU). Member states would then coordinate their macroeconomic policies, subject this coordination to multilateral surveillance and subject themselves to financial and budgetary discipline. The objective of monetary policy was to create a single currency and ensure the currency's stability through price stability and respect for the market economy. The Protocol to the Treaty sets the reference values for the excessive deficit procedure (EDP):[4]

- a member state's government deficit may not exceed 3% of its gross domestic product (GDP);
- a member state's government debt may not exceed 60% of its GDP.

The Treaty lays down which actors will play which roles in the compliance with and surveillance and enforcement of the reference values. The member states must avoid excessive deficits. If they do not, the Council can address recommendations to the member states, prescribe the period in which they must have an effective outcome, make the recommendations public and give notice that the member states must take

4 Protocol on the excessive deficit procedure of the Treaty of Maastricht.

measures to improve the situation within a specified term.[5] The Council can exert pressure but cannot bring a case before the European Court of Justice if a member state does not adhere to the reference values.

Stability and Growth Pact

The budgetary rules of the EU have been laid down in the Stability and Growth Pact (SGP) since 1997.[6] The SGP comprises two regulations and a resolution. It regulates the multilateral surveillance exercised by the European Commission and Council, and contains further rules on the medium-term objective (MTO, set at the time at 1% of GDP) and the excessive deficit procedure (EDP). Euro countries must submit a stability programme every year. EU member states that have not yet introduced the euro must submit a convergence programme every year. The stability and convergence programmes (SCPs) describe the member states' budgetary MTOs and list the measures they will take to restore or maintain the health of their budgetary position in the short and medium term.

In the preventive arm of the SGP the member states commit themselves to a country specific MTO for the budget, which must be nearly in balance within the agreed term. The member states agree an adjustment path to achieve the MTO.[7] The MTO is set separately for each country within a margin of between -1% of GDP and a balance or surplus.[8]

The *corrective arm* of the SGP relates to the excessive deficit procedure (EDP). This is a monitoring mechanism to prevent the occurrence and continuation of deficits in excess of the reference values set in the Protocol to the Treaty of Maastricht: government deficit may not exceed 3% of GDP, and government debt may not exceed 60% of GDP, unless it is sufficiently diminishing and approaching 60% at a satisfactory pace. A member state has an excessive deficit if it exceeds one of the agreed reference values, or already has done and the deficit is not diminishing sufficiently.

Financial sanctions can be imposed on Euro countries that do not abide by the agreements. The sanctions include having to make an interest-bearing deposit or a penalty payment of between 0.2% and 0.5% of GDP. The Council has its own discretionary assessment framework to test the desirability and/or substance of any decision that is taken. The final decision on whether a member state is sufficiently

5 Art. 104c of the Treaty of Maastricht (now Art. 126 of the Treaty of Lisbon) stipulates that if the European Commission considers that there is an excessive deficit it will inform the Council, which will decide by QMV whether there is an excessive deficit or not. If there is, the Council will address recommendations to the member state, with a view to correcting the excessive deficit. The recommendations are not made public. If the member state does not take effective action in response to the recommendations, the Council may make its recommendations public and subsequently give notice to the member state to take measures necessary to remedy the situation.

6 Two regulations (Regulations 1466/97 and 1467/97) and a resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997 (OJ EC, C 236 of 2 August 1997).

7 Under the Stability and Growth Pact, the EU member states 'undertake to abide by the medium-term budgetary objective of positions close to balance or in surplus.' Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997.

8 This objective is reviewed every three years or earlier if a structural reform has a significant influence on the sustainability of public finances. Since the Treaty on Stability, Coordination and Governance in the EMU (TSCG) came into force, the accepted lower limit of the structural government deficit has been adjusted downward to 0.5% of GDP.

abiding by the agreements is taken by the Council on a recommendation from the Commission. The rules were first revised in 2005. Since then, the Council can take greater account, particularly in the corrective arm of the SGP, of such factors as the economic situation in a member state, its budgetary position and the sustainability of its public finances.

2.1.2 European economic governance rules since 2010

Europe 2020 strategy

The Europe 2020 strategy was introduced in 2010 to succeed the Lisbon strategy of 2000. The object of Europe 2020 is to increase growth and employment opportunities in the EU (European Commission, 2010c).[9] Like the Lisbon strategy, Europe 2020's decision-making procedure is the Open Method of Coordination (OMC): member states work together voluntarily without 'hard' surveillance, enforcement or financial sanctions.

Member states submit reports on the Europe 2020 strategy to the European Commission at the same time as they submit their SGP reports. Member states must submit an annual national reform plan (NRP) setting out the policies they will pursue to achieve the Europe 2020 goals every year.[10] They must also give an 'appropriate response' to the country specific recommendations made by the European Commission and the Ecofin and Epsco Councils, which are made up of ministers from the EU member states. To complement the Europe 2020 strategy, the euro countries adopted the Euro Plus Pact in March 2011.[11] Five non-euro countries (Bulgaria, Denmark, Lithuania, Poland and Romania) also signed the Pact.[12] The Pact consists of political agreements to strengthen competitiveness, create jobs and strengthen the sustainability of public finances and financial stability.

Budgetary and macroeconomic surveillance: Six Pack and Two Pack

The Six Pack came into force on 13 December 2011. It consists of five regulations, which are directly applicable in all member states, and a directive that must be transposed into national legislation no later than 31 December 2013.

9 See http://ec.Europe.eu/europe2020.

10 These programmes had already been prepared as part of the Lisbon strategy. The NRPs prepared for Europe 2020, however, are shorter and are issued more frequently (once a year).

11 Conclusions of the Heads of State and Government of the euro area of 11 March 2011, Brussels, Council of the European Union. Retrieved from http://www.consilium.Europe.eu/uedocs/cms_data/docs/pressdata/nl/ec/119829.pdf.

12 These member states expressed their willingness to participate in the Pact at the European Council of 25 March 2011. European Council (2011), Conclusions of 24/25 March 2011, para. 11. Retrieved from https://www.consilium.Europe.eu/uedocs/cms_data/docs/pressdata/nl/ec/120299.pdf.

Table 1 The Six Pack and Two Pack

Name	Instrument	Amends	Scope
Six Pack MTO	1. Regulation 1175/2011	Regulation 1466/97 SGP	Budgetary discipline: Medium-term objective (EU 28)
EDP	2. Regulation 1177/2011	Regulation 1467/97 SGP	Budgetary discipline: Excessive deficits (EU 28)
	3. Regulation 1173/2011	-	Budgetary discipline: Enforcement / sanctions (euro 18)
MIP	4. Regulation 1176/2011	-	Macroeconomic surveillance
	5. Regulation 1174/2011	-	Macroeconomic surveillance: Enforcement / sanctions (euro 18)
	6. Directive 2011/85	-	Budgetary frameworks, EU member states (EU 28)
Two Pack	Regulation 472/2013	-	Budgetary discipline: Surveillance of countries in financial difficulties (euro 18)
	Regulation 473/2013	-	Budgetary discipline: Excessive deficits, draft budgets (euro 18)

Source: EU Governance web dossier, Netherlands Court of Audit (2014).

Strengthening budgetary discipline

To strengthen budgetary discipline, the Six Pack builds on the SGP. The new rules relate chiefly to a reconfirmation of existing agreements in the light of the financial and economic crisis. The agreements on the maximum permitted government deficit and debt the member states may incur remain unchanged. Only euro countries can be given notice to take measures to correct the deficit or be given a financial sanction. The EU imposes a sanction on a euro country if the Council - acting on a recommendation from the European Commission - decides that the country´s progress to correct its deficit or debt or its implementation of recommendations is inadequate. The Council still has the final word in the stricter excessive deficit procedure. Financial sanctions can be imposed on non-euro countries only outside the framework of the excessive deficit procedure.[13]

The sanctions in the excessive deficit procedure have been extended and are easier to impose. On a recommendation from the Commission, the Council decides on the sanction by reverse qualified majority (*reverse* QMV). The Council must act on a recommendation from the European Commission to impose a financial sanction, unless a majority on the Council - not including the member state concerned - specifically votes against it within ten days.

The Two Pack comprises a common budgetary time path and common budgetary rules for euro countries. The euro countries must now:

- announce their medium-term budgetary plans (stability programmes) no later than 30 April of each year, at the same time as they announce their policy priorities for growth and jobs for the coming year (NRPs);
- submit their draft budget for the following year to the European Commission and the Eurogroup no later than 15 October;

13 Structural and investment funds, for example, can be suspended.

adopt or take a decision on their budgets for the following year no later than 31 December.[14]

Macroeconomic surveillance

The Six Pack also provides for the macroeconomic surveillance of the member states.[15] In the detection arm, an alert mechanism assesses whether a member state has a macroeconomic imbalance. If necessary, the Council can then, on a recommendation from the Commission, give notice to the member state that it must take appropriate measures to correct the imbalance.

The European Commission then carries out an in-depth review. If it decides that there is an excessive imbalance that must be corrected, the Council can address recommendations to the member state in the corrective arm of the procedure to take corrective measures within a set term. If a euro country does not take adequate measures to correct an excessive imbalance, the Council can impose an interest-bearing deposit or fine of 0.1% of GDP.

Quality of statistics: introduction of EPSAS

To assess each member state's budgetary discipline and macroeconomic situation, information on the member states' financial situation must be transparent, reliable and comparable. At present, this information is based on statistical data drawn from the European System of Accounts (European System of Accounts, ESA 95) Experience with Greece has shown that the quality of the data underlying the statistics is in need of improvement. To this end, Directive 2011/85/EU was included in the Six Pack.

The European Commission believes uniform public sector reporting rules can enhance the quality, transparency, comparability and reliability of the reports and accounts issued by public organisations in the EU. Eurostat, the EU's statistical office, believes the EU member states cannot use the International Public Sector Accounting Standards (IPSAS) in their present state and that a revised European version is required. The European Commission has proposed that a European version, the European Public Sector Accounting Standards (EPSAS), be developed. The member states have not yet taken a political decision on the matter.[16] At Eurostat's request, PricewaterhouseCoopers studied the costs and benefits of implementing EPSAS in the EU in 2014.[17]

14 European legislation provides for an exception known as the reversionary budget procedure if there are 'objective reasons beyond the control of the government'. See Regulation 473/2011, Art. 4(3). The Regulation does not specify what 'objective reasons beyond the control of the government' are.

15 The MIP Regulation 1176/2011 has detection, prevention and corrective arms. Regulation 1174/2011 introduces the ability to impose sanctions on euro countries in the form of penalty payments or interest-bearing deposits.

16 This can have serious consequences for the Netherlands because the government uses an obligation-cash accounting system. The introduction of EPSAS would entail the introduction of an accrual accounting system with significant changes to Dutch public finances and the way in which the Netherlands Court of Audit carries out its regularity audits. The Dutch Ministry of Finance is not in favour of introducing an accrual accounting system. Internationally, however, there is a discernible trend towards accrual accounting systems.

17 For more information, see our letter to the Senate and the House of Representatives on European economic governance of 28 November 2013.

Treaty on Stability, Coordination and Governance in the EMU

The Treaty on Stability, Coordination and Governance in the EMU (TSCG) of 2012 tightened up some of the elements of the Six Pack. The TSCG must be integrated into the European legal order within five years of its coming into force. Its main features are:[18]

- a stricter budgetary rule that sets the lower limit of the structural budget deficit (country specific MTO) at 0.5% of GDP (instead of the 1% limit set in the SGP). Furthermore an automatic correction mechanism must be triggered if a member state does not abide by this rule or departs from the adjustment path agreed in the SGP. Both obligations (the limit and the correction method) must be enacted in national legislation (preferably constitutional law). The ECJ has the power to check that member states have transposed the TSCG[19] into national law and can - if another member state brings a case before the ECJ - impose sanctions (a lump sum or a penalty payment of 0.1% of GDP) if a member state has not done so. Countries that receive European emergency funding - including support from the ESM - are not subject to the TSCG but to separate measures drafted especially for them;
- the excessive deficit procedure will be tightened up for the euro area. If the European Commission decides that a country has exceeded the 3% EDP reference value, the euro countries will support proposals and recommendations addressed by the Commission to the member state unless a qualified majority of the euro countries - not including the country concerned - oppose them. Countries that receive emergency support from the EU - including support from the ESM - are not subject to the TSCG but to measures drafted especially for them;
- only countries that have ratified the TSCG will be eligible for financial support from the ESM.

The provisions of the TSCG apply to both euro and non-euro countries. The treaty was not signed by the Czech Republic, the United Kingdom and Croatia. It came into force on 1 January 2013. In the Netherlands, the measures laid down in the TSCG have been transposed in the Sustainable Public Finances Act.[20]

2.1.3 Coordination within the European Semester

At EU level, the *European Semester* has been responsible for the annual coordination of the preventive elements of economic governance in the Europe 2020 strategy, the SGP and the MIP since 2011. With the entry into force of the Six Pack at the end of 2011 - following the first cycle of the European Semester for 2011 - the European Semester gained (1) a legal basis[21] and (2) a third pillar to complement budgetary surveillance in the framework of the SGP and the coordination of structural reforms in the framework of Europe 2020: macroeconomic surveillance in the framework of the MIP.

18 The TSCG is an international treaty and is not formally part of the European legal order. The TSCG extended reverse QMV to all aspects of the corrective arm of budgetary supervision. The European treaties (TEU and TFEU) do not provide for this, and an amendment of the treaties was neither possible nor desirable at the time. The agreements were therefore laid down in a treaty outside the European legal order. Another reason to opt for a separate international treaty and not for secondary EU legislation is that the character of the obligations was thought too onerous for a directive or regulation. The TSCG, however, is an important element of European economic governance.

19 TSCG, Title II, article 3-8.

20 Bulletin of Acts and Decrees 2013, 531. The Act came into force on 15 December 2013.

21 Regulation 1466/1997, amended by Regulation 1175/2011. With the entry into force of the Six Pack, the Code of Conduct had to be revised again to incorporate the Six Pack provisions. This was done and ratified on 24 January 24. Retrieved from http://ec.Europe.eu/ economy_finance/economic_governance/sgp/pdf/coc/2010-09-07_code_of_conduct_(consolidated)_en.pdf.

Figure 4 European Semester in detail

	NOVEMBER		MARCH	APRIL	MAY	JUNE-JULY
ECONOMIC PRIORITIES	**Annual Growth Survey**			**National Reform Programmes**		**National Reform Programmes**
	European Commission opens the European Semester with the EU's growth perspectives and economic priorities for the coming year	European Council, Council and European Parliament discuss annual growth survey		Member states submit NRPs to European Commission	European Commission makes proposals for recommendations to the Council	Council addresses recommendations to each member state in response to the NRPs European Council presents final review of the European Semester
MACRO-ECONOMIC SURVEILLANCE		**Alert mechanism report**	**In-depth reviews**			
		European Commission decides in which member states it will carry out in-depth reviews of potential macro-economic imbalances Council discusses the report	European Commission presents results of in-depth review and makes proposals for Council recommendations			Council addresses recommendations to the member states based on the results of in-depth reviews
BUDGETARY SURVEILLANCE				**Stability and Convergence Programmes**		**Recommendations to member states**
				Member states submit information on budgetary deficit, government debt and plans for the coming year to the European Commission	European Commission makes proposals for Council recommendations	The Council addresses recommendations to the member states based on the Stability and Convergence Programmes
	Continuous monitoring by the European Commission and the Council to identify deviations from the medium-term objectives and/or excessive deficits					

Source: EU Governance web dossier, Netherlands Court of Audit (2014).

Figure 4 summarises the member states and the European institutions' main obligations and responsibilities within the European Semester.

Several legal regimes apply in the European Semester.[22] The European Semester combines the instruments and procedures of the SGP, the MIP and the Europe 2020 strategy, but their legal bases - and thus the extent to which the EU can act - differ. Table 2 shows this.

22 See also European Commission (2010b) p. 3, 12: 'Existing processes – e.g. under the Stability and Growth Pact and the Broad Economic Policy Guidelines – will be aligned in terms of timing while remaining legally separate.'

Table 2 Obligations and responsibilities in the framework of the European Semester (Regulation 1175/2011, Article 2 (2))

Elements of the European Semester	Responsible actor	Type of obligation	Instrument / pillar	Legal basis
Prepare BEPG for Europe 2020	Ecofin Council	• Prepare BEPG: Broad Economic Policy Guidelines of the member states and the Union (based on Commission recommendations)	Europe 2020	121(2) TFEU 2010/410/EU
	European Commission	• Surveillance of BEPG implementation		
	Ecofin Council	• Preparation of BEPG report of findings		
	European Council	• Conclusions on BEPG based on Council report		
	Ecofin Council	• Assumption of recommendations based on conclusions (based on Commission proposals) • Inform European Parliament of recommendations		
Prepare employment guidelines for Europe 2020	Epsco Council	• Prepare employment guidelines (based on European Council recommendations, Commission recommendations and after consulting European Parliament, ESC, and after consultation with European Parliament, ESC, CR, RCE) compatible with BEPG	Europe 2020	148(2) TFEU 2010/707/EU[23]
	European Commission	• Check implementation of guidelines		
	Member states (EU 28)	• Take account of guidelines in the employment guidelines		
Submit SP and CP for SGP	Participating member states (euro 18)	• Submit stability programme (SP) to Council and European Commission with MTO for the budget	SGP	121(3) TFEU 121(4) TFEU (multilateral surveillance) Vo. 1175/2011
	Non-participating member states (other)	• Submit convergence programme (CP) to Council and European Commission with MTO for the budget		
	Ecofin Council and European Commission	• Assess SCPs submitted • Supervise implementation of SCPs		
	Member states (EU 28)	• Follow up country specific recommendations		
Submission of NRP for Europe 2020	Member states (EU 28)	• Submit NRPs to Council and European Commission to support Europe 2020 in accordance with guidelines (BEPG and employment guidelines)	Europe 2020	121(2) TFEU 148(2) TFEU
	Ecofin Council and Epsco Council and European Commission	• Assessment of NRPs submitted • Surveillance of implementation of NRPs		
	Member states (EU 28)	• Follow up country specific recommendations		
Surveillance of MIP	Ecofin Council and European Commission	• Surveillance to prevent and correct macroeconomic imbalances	MIP	121(6) TFEU Regulation 1176/2011
	Member states (EU 28)	• Follow up country specific recommendations		

2.2 Legal enforceability of European economic governance

The previous section outlined the rules of European economic governance. This section looks at the legal architecture and the system of surveillance, enforcement and sanctioning. We consider how hard the instruments are, i.e. the extent to which they are binding and enforceable. Legal instruments are '*binding*' if the parties to which they

23 The guidelines were prepared in 2010 and must remain largely unchanged until 2014 so that all efforts can be focused on implementation. At present, the Commission has made, or is making, proposals for new BEPG and employment guidelines (European Commission, 2013a).

apply (addressees) must abide by the rules they embody. At EU level, treaties, protocols, regulations, directives, decisions (e.g. the annual budget decision), international agreements and interinstitutional agreements are binding instruments. Other legal instruments are not binding. These other legal instruments (soft law) are chiefly of political relevance.[24] Binding legal instruments are 'enforceable' if there is access to the courts - the ECJ or the national courts - to demand effective implementation of the binding acts. Not all legal instruments are binding and not all binding legal instruments are enforceable. Table 3 shows which EEG instruments are soft law, which are binding and which are binding and enforceable.

Table 3 Binding and enforceable key obligations of European Economic governance

EEG rules	Key obligations for member states	Addressee
Europe 2020	Submit NRP for socioeconomic policies; Implement recommendations	EU 28
SGP MTO	Substantive obligations of Regulation 1466/97: Submit SCP with MTO adjustment path for budget	EU 28
	Follow up recommendations, guidelines, warnings from the Commission or Council in accordance with Regulation 1466/97	EU 28 or euro 18[25]
	Sanction obligations, Regulation 1173/11 Art. 4: Council decision on interest-bearing deposit	Euro 18
SGP EDP	Substantive obligations of Regulation 1467/97: Prevention or correction of excessive deficits	EU 28
	Implement recommendations and warnings from the Commission and Council in accordance with Regulation 1467/97	EU 28 or euro 18
	Sanction obligations, Regulation 1173/11 Art. 5-6 (Council decision on deposit or fine), Art. 126(11) TFEU and Regulation 1467/97 Art. 6 (fine), Regulation 1173/11 Art. 8 (fine for manipulation of statistics)	Euro 18
MIP	Substantive obligations, Regulation 1176/2011: Prevent or correct macroeconomic imbalances	EU 28
	Implement recommendations, guidelines and warnings from the Commission and Council in accordance with Regulation 1176/2011	EU 28 or euro 18
	Sanction obligations, Regulation 1174/2011 Art. 3: Council decision on interest-bearing deposit or fine	Euro 18
TSCG	Substantive obligations, TSCG: Transpose budgetary rule and correction mechanism into national (constitutional) law	EU 25
	Sanction obligations, TSCG Art. 8 regarding non-implementation of TSCG: ECJ decision: Lump sum and/or penalty payment of up to 0.1% of GDP	EU 25
	Sanction obligations for deviation from MTO adjustment path for budget or non-implementation of correction mechanism: absent	EU 25

Light blue is not binding and not enforceable

medium blue is binding but not enforceable

dark blue is binding and enforceable

24 All EEG legislation (the TSCG, Six Pack (SGP and MIP) and Two Pack, and the Sustainable Public Finances Act) is binding. EU recommendations, advice, guidelines, communications, declarations and resolutions are not binding. It cannot be ruled out that these legal instruments (soft law) will not have legal consequences. They are used to coordinate and steer or to prepare or review policy.

25 Some of the obligations apply to all member states, and some only to euro countries.

Europe 2020 strategy

The Europe 2020 strategy has not been laid down in binding legal instruments but in a Commission communication (soft law).[26] It covers a field in which the member states wish to coordinate their policies but also retain their own decision-making powers. To do so, they use the voluntary cooperation and soft coordination and steering mechanisms of the Open Coordination Method (OCM). As a result, notices to take action cannot be given, financial sanctions cannot be imposed and other binding and enforceable decisions cannot be taken. Member states can be held to account by other member states, the Council or the European Commission, but they cannot be taken to court or sanctioned if they do not abide by the agreed policy line.

Preventive arm of the SGP: medium-tem objective (MTO)

The MTO Regulation introduced a phased surveillance procedure. The Council can address recommendations to member states and monitor whether they have been followed up at various moments and in different phases of the MTO or the adjustment path towards it, if it detects a deviation from the path. The Council can act only on a proposal or recommendation from the European Commission. The ´comply or explain´ principle is applicable. The right of initiative lies with the Commission, but the Council has the final word and adopts or rejects the Commission's stance. If a member state does not implement the Council's recommendations, a sanction can be imposed on euro countries in accordance with the Sanctions Regulation. If a member state does not abide by the MTO agreements or the adjustment path towards it, the Commission, the Council or another member state is in principle free to take the defaulting member state to the ECJ. A member state can also be taken to the ECJ if it does not make the deposit.

Corrective arm of the SGP: Excessive deficit procedure (EDP)

Unlike the MTO procedure, the EDP has its own treaty-based enforcement regime (Art. 126(10) TFEU). The regular infringement procedure is therefore not applicable (Reestman (2013), p. 8; Diamant & Van Emmerik (2013), p. 115).[27] Cases cannot be taken to the ECJ: determining whether a member state abides by the agreements is not a legal matter but a political decision that is reserved to the Council.[28] The member states ruled out judicial review by treaty (Art. 126(10) TFEU). The Council therefore has the final word in the EDP: every decision is ultimately the outcome of political deliberation following a policy-based review by the European Commission, and there are no legal consequences. The Council has its own freedom of review and can ignore the Commission's recommendations. The Council, however, 'cannot break free' from

26 European Commission (2010a). The integrated guidelines for economic policy and employment prepared by the Council are also relevant to the implementation of the Europe 2020 strategy (Art. 121 in conjunction with Art. 148 TFEU). The member states prepare their annual NRPs in accordance with these guidelines.

27 Academics suggest that this is because the various SGP measures (especially in the EDP) restrict the national budget legislator´s scope to take its own political and economic decisions. See J.H. Reestman (2013), p. 8; M. Diamant & M.L. van Emmerik (2013), p. 115.

28 The question is whether this will be retained in future treaty amendments. The Commission states in European Commission (2012): ´A further way of strengthening the EU's legitimacy would also be to extend the competences of the Court of Justice, i.e. by deleting Art. 126 paragraph 10 TFEU and thus admitting infringement proceedings for Member States or by creating new, special competences and procedures, although one should not forget that some of the issues do not lend themselves to full judicial review.´ Brussels, 30.11.2012. COM(2012) 777 final/2, p. 39.

the rules:[29] only the Commission has the right of initiative and the Council must adopt the Commission's recommendations unless it has good reason to amend or reject them. This does not change the fact, however, that the EDP's objective is to enforce compliance so as to correct deficits (without the use of legal remedies). Compliance is achieved through political pressure to ensure the rules have their desired effect. The EU institutions will apply the existing legislation if necessary.[30] This procedure attempts to strike a balance between the retention of national budgetary autonomy on the one hand and the actual enforcement of the rules so that they have the desired effect on the other.

Macroeconomic imbalance procedure (MIP)

The MIP was introduced in 2011. Member states are now also assessed on a number of macroeconomic indicators. The European Commission and the Council monitor and assess whether there are potentially harmful imbalances in the economies of the member state. In broad lines, the MIP system and decision-making procedure are consistent with the other Six Pack instruments: again, the 'comply or explain' principle is applicable.

TSCG

The TSCG lays down rules to enforce budgetary discipline in the EU member states; in this respect, it is an extension of the SGP and its rules must be incorporated into European law with five years of their coming into force. The TSCG is an additional instrument, complementing the Six Pack, the Euro Plus Pact and the ESM Treaty, to strengthen the economic union and thus compensate for the asymmetry between the monetary and economic arms of the EMU (Borger & Cuyvers (2012), §2). Under the TSCG, the Commission must decide, among other things, whether the Treaty parties have transposed the automatic correction mechanism of Art. 3 on time and correctly into national law. If the Commission concludes that it has not been, the matter must be brought before the ECJ and the modified infringement procedure will be initiated (Art. 8(1), 8(2) TSCG). The ECJ´s judgment is binding.[31] The ECJ is therefore not competent to give an opinion on the substantive compliance with the SGP's budgetary rules but it can be requested to give an opinion on whether a member state has implemented the TSCG correctly or has transposed the TSCG agreements into national law. Preparation and adoption of the budget remains part of national law, reserved to the member state itself; as it is thought that the MTO requirements will become more important than the EDP requirements, the system of supranational preventive surveillance will be tightened up. As long as favourable progress is being made towards the MTO and/or deviations are 'automatically' corrected, an increase in the budget deficit to 3% of GDP, after which the EDP comes into view, is not actually a matter of concern.

29 Case C-27/04, Commission v Council, ECJ, 13 July 2004, Jur. 2004, p. I-06679.

30 Case C-27/04, consideration 70, 74; Report of Ecofin Council, retrieved from http://register.consilium.Europe.eu/pdf/nl/05/st07/st07423-re05.nl05.pdf; Ministry of Finance, Foreign Financial Relations Department, memo 'Legal consequences of departing from SGP agreements', 13 March 2012.

31 If another member state or the Commission concludes that it has not been implemented, the matter can be returned to the ECJ. Both the Commission and all member states are competent to do so. The ECJ´s judgment is again binding and the ECJ can impose a lump sum of a penalty payment under Art. 260 TFEU.

2.3 Rules, reporting requirements and accountability

2.3.1 Development of rules

Table 4 summarises the development of European economic governance since 1992.

Table 4 European Economic governance since 1992

<table>
<tr><th>As from</th><th>Coordination of structural reforms</th><th>Budgetary surveillance</th><th>Macroeconomic surveillance</th></tr>
<tr><td rowspan="2">2013</td><td></td><td colspan="2">Two Pack (partly EU 28, partly euro 18):
SGP: common budgetary time path for euro countries;
SGP/MIP: countries receiving emergency support will be subject to a new programme and the SGP reporting requirements and Europe 2020 will be abolished</td></tr>
<tr><td></td><td>TSCG (25 EU member states, excl. UK, Czech Republic and Croatia):
stricter MTO, transposition of MTO and automatic correction mechanism into national law, and extension of reverse QMV for decisions on sanctions and substantive decisions by the Council</td><td></td></tr>
<tr><td>2011</td><td colspan="3">European Semester (EU 28):
Annual country specific recommendations with elements of coordination of structural reforms, budgetary surveillance (prevention) and macroeconomic surveillance (detection, prevention)</td></tr>
<tr><td>2011</td><td>Euro Plus Pact (23 member states, excl. UK, Sweden, Czech Republic, Bulgaria, Croatia)</td><td colspan="2">Six Pack (partly EU 28, partly euro 18):
SGP: more sanctioning options, reverse QMV for Council decisions on sanctions;
New MIP: detection, prevention and correction with potential sanctions for euro countries</td></tr>
<tr><td>2010</td><td>Europe 2020 strategy (EU 28) replaces Lisbon strategy, annual NRP</td><td></td><td></td></tr>
<tr><td>2005</td><td>Revision of Lisbon strategy</td><td>Revision of SGP</td><td></td></tr>
<tr><td>2000</td><td>Lisbon strategy: biennial NRP</td><td></td><td></td></tr>
<tr><td>1997</td><td>Treaty of Amsterdam: extension of EU powers over social policy and coordinated EU employment strategy</td><td>SGP: prevention (MTO, annual SCPs: EU 28) and
correction (EDP: EU 28) with potential sanctions for euro countries</td><td></td></tr>
<tr><td>1992</td><td>Treaty of Maastricht: coordinated economic policy, introduction of EMU</td><td>Treaty of Maastricht: government deficit <3%, government debt <60%</td><td></td></tr>
</table>

We can note that:

- the roots of European economic governance lie in policy introduced in 1992 and refined over the years. The main elements are still in force. New legislation has often tightened up or built on existing rules. The development of European economic governance has been evolutionary;
- a complex body of laws and rules has come into being that apply in part to the 28 EU member states, in part to 25 EU member states, in part to 23 EU member states, and in part to the 18 countries of the euro area. The policy that provides for financial sanctions applies only to the euro area;

- it can be concluded from the rules and their implementation that a balance has been sought between the retention of national sovereignty and autonomy in budgetary and macroeconomic policies (decision-making by the Council; not all decisions are binding and enforceable), and consistent enforcement of the rules and the achievement of the desired effect (sustainable public finances, economic growth and financial stability and the prevention of future crises and overspills);
- the influence of the euro 18 - which can act as the Ecofin Council in a euro configuration and as the Eurogroup - is increasing. Its greater importance can be seen in the decisions on the imposition of financial sanctions and corrective actions addressed to the member states;
- budgetary surveillance and macroeconomic surveillance contain both preventive and corrective elements. The 'overarching' European Semester, which leads to annual country specific recommendations to the EU member states, is concerned only with the preventive elements of European economic governance.

The European Commission has gained more power in decision-making on surveillance, enforcement and sanctions. Since 2011, the Commission has had more opportunity to exercise surveillance and reverse qualified voting has been introduced in the Council. In principle, a Commission proposal is more likely to be adopted than in the past. Ultimately, the Council takes the decision and the decision remains the outcome of political deliberation.

2.3.2 Reporting requirements

Under the current rules, member states can in broad lines be classified by the seriousness of the financial problems they face (table 5).[32]

Table 5 Escalation ladder of financial problems in the EU member states

Escalation phase	Description	Examples of countries
1	Standard: no financial difficulties	Luxembourg
2	Preventive surveillance under MTO and/or MIP	Germany
3	Corrective surveillance under EDP and/or MIP	France, Slovenia
4	Serious difficulties regarding financial stability	Ireland, Spain (for 'post-programme surveillance')
5	Financial support from emergency measures	Greece, Portugal, Cyprus

An analysis of the Six Pack and the Two Pack regulations and the TSCG reveals the link between this escalation ladder and the extent to which a member state is supervised and the related reporting obligations (table 6).

32 This table is illustrative and presents only the main phases in the escalation ladder. In reality the situation is more fluid and there are no absolute limits between the phases. It is possible, for example, to be simultaneously in the prevention phase of MIP (phase 2) and in the corrective phase of the EDP (phase 3) and vice versa.

Table 6 Escalation of financial situation and reporting obligations (euro countries)

Situation	Escalation phase		Increase	Reporting obligations for surveillance by EU institutions*
Financial support from emergency measures	5		Reports from phase 3 +	8 additional reports (based on Regulations 472/2013, 473/2013, 1176/2011), including macroeconomic adjustment programme (in accordance with Regulation 472/2013). This replaces previous reporting obligations for the MTO/EDP and MIP.
Serious difficulties regarding financial stability	4		Reports from phase 3 +	3 additional reports (in accordance with Regulations 472/2013, 473/2013, 1176/2011). If a country is placed under enhanced surveillance: 5 additional reports (in accordance with Regulation 473/2013).
Corrective surveillance, EDP and/or MIP	3		Reports from phase 2 +	For EDP, 10 additional reports (in accordance with TSCG, Regulations 1467/97, amended and extended by 1056/2005 and 1177/2011; 473/2013; 479/2009, amended and extended by 679/2010). For MIP, 2 extra reports (in accordance with Regulation 1176/2011).
Preventive surveillance, MTO and/or MIP	2		Reports from phase 1 +	For MTO, a report on measures to restore budgetary balance (in accordance with Regulation 1466/97, amended and extended by 1055/2005 and 1175/2011). For MIP, no additional reporting obligations.
Standard	1		Standard	Annually, end of April: NRP, SP and medium-term budgetary plans, 15 October: draft budget. Twice a year: debt, deficit, investment, interest payments and GDP figures.

* The Council and European Commission set the time path for the reporting obligations.

The number of reports increases sharply if a member state is in the corrective phase of a procedure (phase 3). If a member state is placed under enhanced surveillance (phase 4), more reports are required.[33] Member states requesting support from the European emergency measures (phase 5) are no longer subject to the SGP and MIP reporting obligations but must prepare a macroeconomic adjustment programme (MAP). They must also prepare seven additional reports, including an evaluation of the implementation of the current budget (within six months), information on adopted and proposed measures and their impact on the budget (every six months), and at the request of the European Commission they must prepare an independent audit report on public finances, a six-monthly report on the financial institutions and lending conditions of the financial sector in the member state, and a quarterly report on the current budgetary situation. The reporting obligations are onerous and increase as a member state´s financial situation deteriorates.

33 It should be noted that more reports do not necessarily mean more work. The reporting obligation for the NRP, for example, has been standardised and considerably reduced over the years.

2.3.3 Accountability

Democratic accountability of the euro 18 and its President

Some of the EEG rules - especially the corrective parts of the SGP and the MIP and parts of the TSCG and the Two Pack - apply to the member states in the euro area only. EU discussions and decisions on the euro and the EMU in the framework of these instruments are therefore reserved to the euro 18. Only their representatives take part in voting in the Council, i.e. the Ecofin Council in euro configuration.[34] The Ecofin Council in euro configuration is a formal Council configuration. The Eurogroup, however, has the same composition as the Council configuration but is an informal body.[35] The euro 18's influence, including its influence on decision-making[36] on European economic governance, has increased. A situation has thus arisen in which three formal and informal Council configurations play a role in European economic governance: 1. the Ecofin Council as a whole, 2. the Ecofin Council in euro configuration, in which only the euro 18 have voting rights but other countries may also be present, and 3. the informal Eurogroup. As well as the complex body of laws and rules that has arisen, the decision-making mechanism is uncertain and not transparent.

During the development of the EU, and specifically the EMU, various checks and balances have been built into decision-making at EU level to ensure democratic control and accountability for the decisions taken. The European Parliament plays an important role as a controller of the EMU and other rules, as well as being a co-legislator, and the European Court of Auditors can carry out independent audits. In principle, the European Parliament controls the European institutions, especially the Commission, and the institutions are accountable to it. The European Parliament, for example, has the right of investigation and can submit a motion of censure. If the motion is passed, the Commission is required to resign as a body. Furthermore, the Six Pack and Two Pack specifically refer to the importance of closer and more timely ties between the European Parliament and national parliaments in order to strengthen European economic governance. To this end, the Council and the Commission must regularly inform the European Parliament during the economic dialogue of the application and outcome of implementation and surveillance tasks under the SGP, the MIP and the Two Pack.[37] Finally, the Commission believes the 'comply or explain' principle should be strengthened (European Commission, 2012). Under this principle, the Council must publicly account, in practice chiefly to the European Parliament, for all amendments to Commission proposals on financial and economic surveillance.

We found that such regular arrangements of democratic control and accountability as are in place for the EU 28 do not apply in equal measure to the Eurogroup or its President.[38] The Eurogroup holds informal meetings: they are exchanges of views about matters relating to the euro. The TSCG extends the meeting's discussion points

34 The representatives of non-euro countries are still formally part of the Ecofin Council and are present during voting. However, they cannot exercise their voting right and formally have no influence on the decision-making process.

35 Art. 136(2) in conjunction with Art. 137 TFEU, Protocol 12.

36 The Eurogroup, for example, makes preparations for the Euro Summit meetings and follows up the decisions it takes (Art. 12 TSCG). The Ecofin Council in euro configuration plays an important (decision-forming) role under the Two Pack and the enforcement and sanctioning measures in the corrective arm of the Six Pack.

37 For a detailed summary by member state, see European Parliament (2014), retrieved from: http://www.Europerl.Europe.eu/document/activities/cont/201307/20130712ATT69725/20130712ATT69725EN.pdf.

38 Art. 136(2) in conjunction with Art. 137 TFEU, Protocol 12.

to include ‘other issues concerning the governance of the euro area and the rules that apply to it and strategic orientations for the conduct of economic policies to increase convergence in the euro area’. The President of the Eurogroup is formally not publicly accountable to the European Parliament or any other institution. Neither is there a flow of information by which the Eurogroup must formally render account. The arrangement is becoming more urgent because the Eurogroup plays an influential role in the framework of European economic governance.

Necessary accounting figures

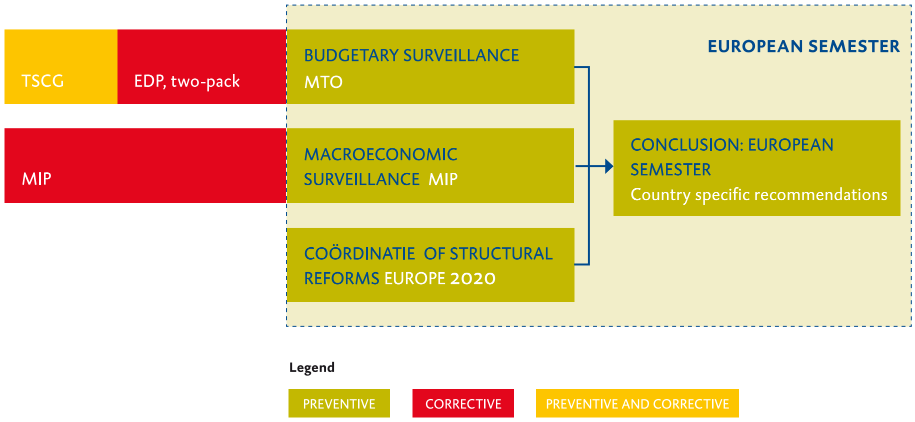
To date, the new legislation and rules on European economic governance have been directed almost exclusively at the surveillance and control of budgetary and macroeconomic policies. Less attention has been paid to accountability and the related figures. Accountability requires, among other things, actual figures on the definitive EMU balance and MIP criteria. Good accounts of actual figures are essential, not only to determine whether a member state remains below the MIP thresholds for, for instance, house prices and unemployment but also to provide an insight into the measures countries are actually taking, into the effect of those measures and into the lessons that can be learnt. Accountability gives the European institutions assurance on whether and to what extent member states satisfy their EU obligations. There is possibly a gap in EU legislation with regard to accounting. Public accountability for government accounts calls for a more uniform approach at EU member state level so that the information is comparable. At present, however, there are differences between the accounting systems, scope (central and local authorities) and the moment when the accounts on the implementation of the budget must be prepared and when the national audit institution must express an opinion on them. The opinions themselves may differ on account of differences in national rules (Netherlands Court of Audit, 2013a).[39]

39 See Factsheets 1 (European Union) and 4 (Accounting systems and accounting standards).

3 Functioning of European economic governance

In the previous chapter we saw that the current system of European economic governance consists of three different clusters of rules: budgetary surveillance, macroeconomic surveillance, and the coordination of structural reforms. The European Semester aligns and streamlines the coordination and surveillance instruments in these clusters, following which the Commission addresses country specific recommendations to each member state (as shown in figure 5). In this chapter we look at the functioning of the current system of European economic governance. We first consider each of the three clusters of rules and then the country specific recommendations.

Figure 5 Key elements of EEG in 2013



Key aspects

Budgetary surveillance: rules not fully or consistently applied between 1997 and 2012
Since 1997 EU member states have been required to bring their budgets into balance or surplus. Until 2014, the euro countries were required to have a structural government deficit of no more than 1% of GDP. In 68% of the period until 2012 the aggregate deficit of the euro countries was comfortably above 1%. In the years prior to their membership of the euro area, eight of the then 17 euro countries had a government debt of less than 60% of GDP. In 2012, only five of the 17 euro countries still had a government debt of less than 60% of GDP.

EU member states were subject to the excessive deficit procedure in 41% of the period from 1999 to 2012 because their deficits were too high. During this period, the Council gave notices to the euro countries on four occasions but did not impose any financial sanctions. In 8% of the cases the Council did not place euro countries with excessive government debts in the EDP. Under the rules, member states have a year's time to correct an excessive deficit but in practice they enjoyed 4.5 years during 1999-2012. To the end of 2013, the Netherlands did not satisfy the European requirements for budgetary surveillance and was subject to the EDP from December 2009 until the end of 2013.

Macroeconomic surveillance: functioning so far limited to detection and prevention
Until the end of 2013, the functioning of the MIP was limited to the detection and prevention phases. The nature and seriousness of imbalances detected by the European Commission have differed from one member state to another. It is not entirely clear in the MIP (unlike the situation in the EDP) how the Commission decides that there is an imbalance. The Commission has discretionary powers and how it weighs the nature and seriousness to take a decision on an imbalance is not transparent. The Commission decided there were imbalances in the Netherlands in 2012 and 2013 but not excessive imbalances.

Coordination of structural reforms: strategy to facilitate and prioritise
As an integral part of the European Semester, the Europe 2020 strategy is closely intertwined with the measures to combat the crisis. The EU does not have exclusive powers in the Europe 2020 policy fields but shares power with member states or acts to support them. The Europe 2020 strategy facilitates and prioritises certain issues. The main obligations resting on the member states are to submit timely and correct reports and to comply with the country specific recommendations. The main objectives of Europe 2020 at EU level are not yet within reach. Member states have until 2020 to achieve them.

In the Netherlands, national policy has been 'translated' to Europe 2020. No new policy has been formulated specifically for the Europe 2020 objectives. In 2012, the Netherlands had not yet achieved the Europe 2020 objectives but was close to the targets set for 2020. In a number of policy fields the Netherlands has set objectives that are more demanding than the EU average.

European Semester: uncertain formulation of country specific recommendations
At the end of the European Semester, the Council addresses a package of country specific recommendations to each member state. The package is based on the instruments and procedures coordinated by the European Semester: the MTO or the SGP, the MIP and the Europe 2020 strategy. It is not immediately clear to the countries addressed which recommendations have arisen under which instrument and therefore whether or not a particular recommendation is binding (under the SGP or the MIP) or soft (in the framework of Europe 2020), which it can in theory ignore. The instruments and obligations and how hard or soft they are can differ widely within a single package of country specific recommendations. Nevertheless, the member states generally (64% of the time) comply with them. In a quarter of the cases in which the member states undertook to implement the recommendations, however, it is not known whether or not they actually did so. The recommendations on fiscal policies form an exception (taxes, pensions and SGP-related matters, including the MTO), as they are the recommendations that the member states tend not to implement.

Organisation of this chapter
This chapter analyses the functioning of European economic governance. It successively looks at the various clusters of rules and the country specific recommendations.

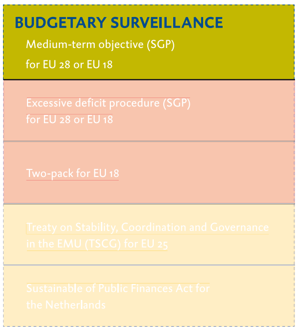
3.1 Budgetary surveillance

3.1.1 Procedures and reference values

Procedure	Time path	Reference value	
Preventive arm	medium term	structural government deficit	≤1% GDP
		Adjustment path towards	≤1% GDP
			until 2014 ▲
			as from 2014 ▼
		structural government debt	≤0.5% GDP
	annual	adjustment path towards	≤0.5% GDP
Corrective arm	annual	government deficit	≤3% GDP
	annual	government debt	≤60% GDP or declining

The procedures for the preventive and corrective arms of budgetary surveillance are comparable. If a reference value is exceeded, the member state must take corrective action.[40] To this end, it will receive a recommendation from the Council, which - where it is in the preventive arm - is one of the country specific recommendations in the framework of the European Semester.

3.1.2 Functioning of preventive arm: medium-term objective



All EU member states have a differentiated medium-term objective for their budgets. The Commission and the Council check that the EU member states are working towards their objectives of the adjustment path towards it. The functioning of the MTO is shown in figure 6.

The preventive arm of budgetary surveillance seems to have grown in importance since the introduction of the TSCG.[41] The reference values for the medium-term objective have become stricter and are applicable to more countries.

Reference value	applicable	To whom
structural government deficit ≤1% GDP	before treaty	18 euro countries
structural government deficit ≤ 0.5% GDP	after treaty	25 (TSCG) EU member states

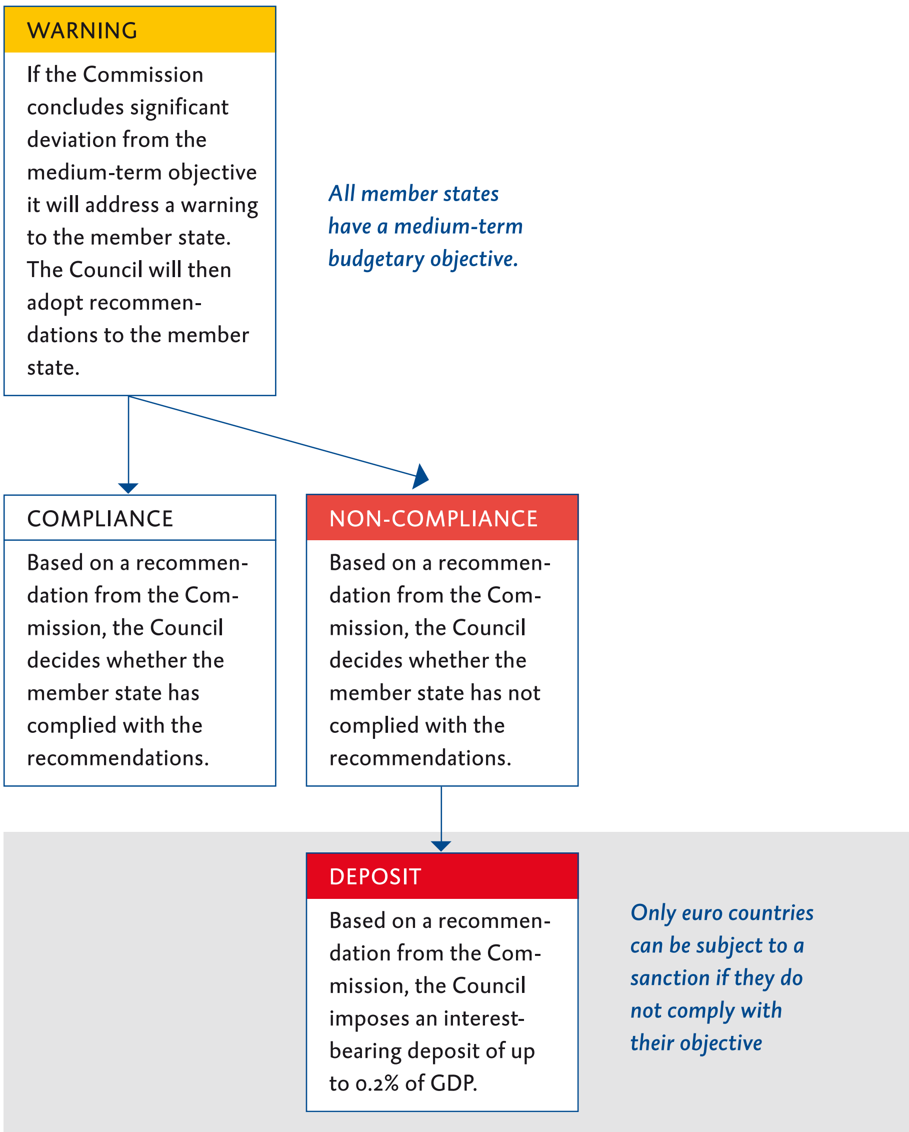
It cannot yet be ascertained whether governance has actually been strengthened because the TSCG did not come into force until January 2013 and member states had a year to adapt their national legislation to the Treaty.

40 The assessment of these reference values takes account of several factors (Art. 2a Regulation 1466/97, amended by Regulation 1175/2011 and Art. 126(3) TFEU). The reference values shown here, however, determine whether a member state is adhering to budgetary discipline. We have therefore not considered other factors in this analysis.

41 By signing the TSCG, 25 of the 28 member states undertook to reduce their structural government deficits in the medium term to 0.5% of GDP at most. Separate agreements on country specific medium term objectives were made with the member states that did not sign the Treaty.

Figure 6 Preventive arm of EU budgetary surveillance

Preventive arm: medium-term objective: government deficit ≤0.5% of GDP



It is also difficult to assess the implementation of the preventive arm before the TSCG came into force because there was no public, traceable flow of documented Council decisions. An indirect conclusion can be drawn about the functioning of the preventive arm. The purpose of budgetary surveillance as a whole is to promote healthy public finances. The aim of the preventive arm is "to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies thereby supporting the achievement of the Union's objectives for growth and employment".[42]

To assess its functioning, we studied the structural government deficits of the euro countries as from the date on which the preventive arm came into force in 1998 until 2012. Clear reference values had been set for these countries. We also looked at developments in government debt in the euro countries, which are an indicator of the development and health of public finances. Furthermore, we can compare government debt with the 60% reference value in the corrective arm of budgetary surveillance.

42 Regulation 1466/97, consolidated version of 23 November 2011, article 1.

The euro countries had a structural government deficit of 1% of GDP or less in 32% of the period between 1999 and 2012. In the greater part of this period, therefore, the euro countries exceeded the maximum permitted government deficit.[43]

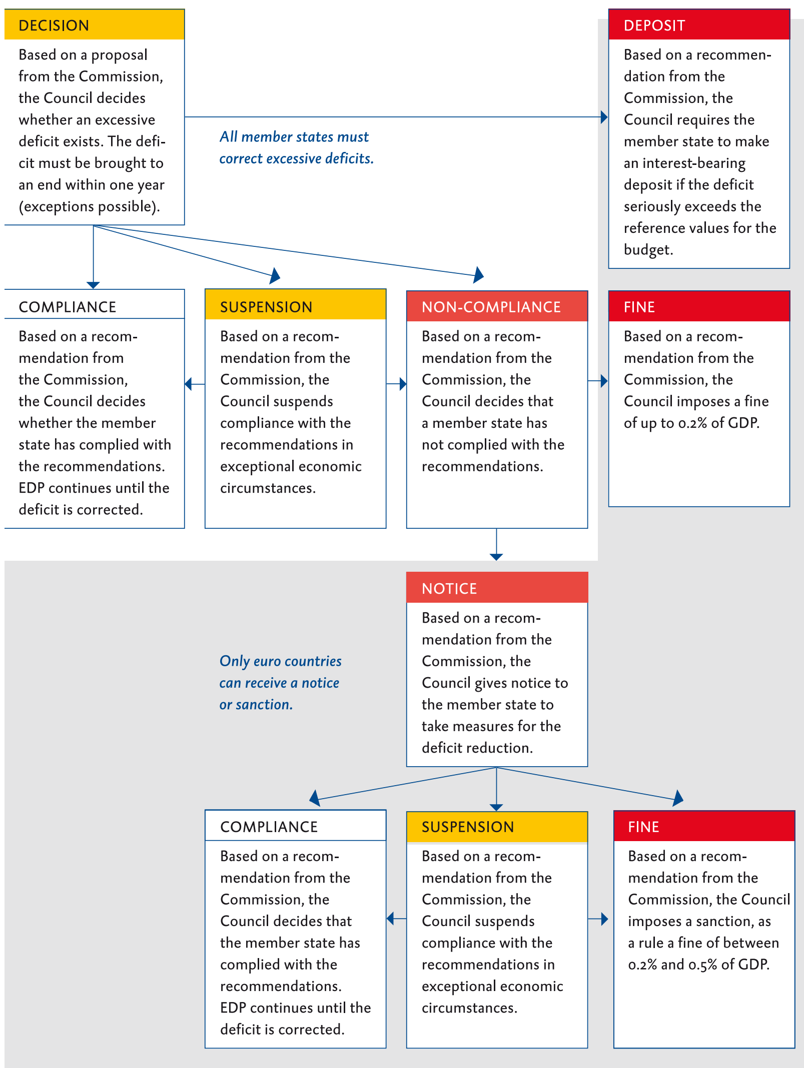
In the year before joining the euro area, eight of the (then) 17 euro countries had a government debt of less than 60% of GDP: Cyprus, Estonia, France, Ireland, Luxembourg, Malta, Slovenia and Slovakia.[44] In 2012, five euro countries had a government debt of less than 60%: Estonia, Luxembourg, Slovenia, Slovakia and Finland. The other 12 euro countries exceeded 60%. Greece (157%), Italy (127%), Portugal (124%) and Ireland (117%) had the highest government debts. Of these countries, only Italy did not receive emergency support from the EU.

3.1.3 Functioning of the corrective arm: excessive deficit procedure

BUDGETARY SURVEILLANCE
Medium-term objective (SGP) for EU 28 or EU 18
Excessive deficit procedure (SGP) for EU 28 or EU 18
Two-pack for EU 18
Treaty on Stability, Coordination and Governance in the EMU (TSCG) for EU 25
Sustainable of Public Finances Act for the Netherlands

Figure 7 Corrective arm of EU budgetary surveillance

Corrective arm: excessive deficit procedure: government deficit ≤3% of GDP, government dept ≤60% of GDP



43 We looked at the maximum permitted deficit of 1% of GDP. We did not consider the extent to which member states complied with their country specific medium-term objectives or the adjustment paths towards them because the requisite data were not available.

44 Three countries had particularly high government debts in the year before they joined the euro: Belgium (117%), Italy (114%) and Greece (103%).

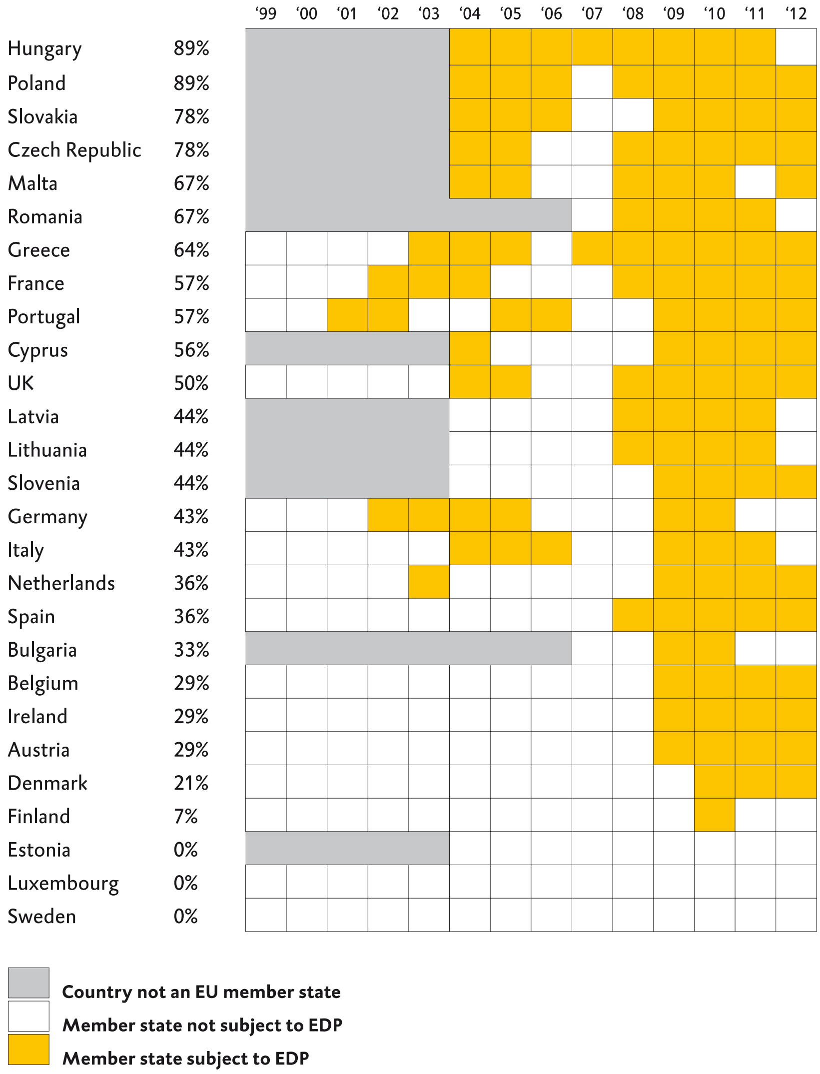
The functioning of EDP is shown in figure 8. If the Council decides that an EU member state has an excessive deficit, it prepares measures to correct it. If there is a serious deviation from the reference values for the budget or if the member state has already had to make an interest-bearing deposit under the preventive arm, the Council may require the member state to make an immediate interest bearing deposit. This sanction applies to euro countries only.

If the member state complies with the Council's recommendations and corrects the deficit, the procedures is abrogated. If the member state does not comply with the recommendations, the Council can impose a fine or give notice to the member state to take measures to reduce the deficit. A notice may also lead to the imposition of a fine. Only euro countries can be given notices or fines. If the member state does not comply with the recommendations on account of exceptional economic circumstances, the Council can suspend compliance with the recommendations and correction of the deficit.

Figure 8 shows that the member states were on average subject to the EDP for 41% of the period between 1999 and 2012.[45] The Netherlands had an excessive deficit in 2003, which it had corrected by 2004. The Netherlands again had an excessive deficit in 2009, which it had not corrected by 2012. In total, the Netherlands was subject to the EDP 36% of the time between 1999 and 2012. In the Council's opinion, 11 of the 27 member states (at the end of 2012) had had an excessive deficit for more than 50% of that period: Hungary, Poland, Slovakia, Czech Republic, Malta, Romania, Greece, France, Portugal, Cyprus and the UK. Only three member states did not have an excessive deficit throughout the period: Sweden, Luxembourg and Estonia. Five of the 12 member states that acceded to the EU in 2004 or 2007 already had an excessive deficit: Hungary, Poland, Czech Republic, Malta and Cyprus. Romania was placed under the EDP one year after its accession.

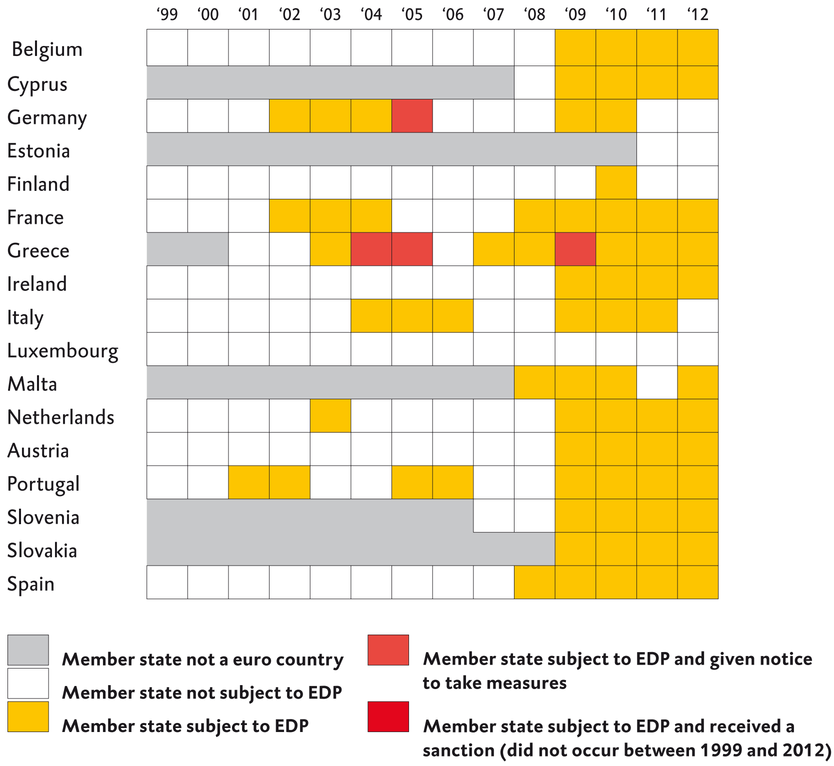
45 Unless stated otherwise, the summary of the EDP presents figures for year t that were available in year t+1. We can therefore make a fair estimate of how the Council arrived at its decisions on budgetary supervision. In general, decisions on a country's situation in year t are taken in year t+1 on the basis of figures known about year t.

Figure 8 EU member states subject to the EDP (1999-2012)



Together, the euro countries were subject to the EDP for 40% of the period between 1999 and 2012. Figure 9 shows when the Council decided that the euro countries had excessive deficits and the steps that were taken in the procedure.

Figure 9 EDP and sanctions for euro countries (1999-2012)



The Council has made little if any use of the measures available to have euro countries correct their excessive deficits: between 1999 and 2012, Germany (2005) and Greece (2004, 2005 and 2009) were given notice to take measures to correct their excessive deficits. The Council has never imposed a financial sanction in the corrective arm of budgetary surveillance.

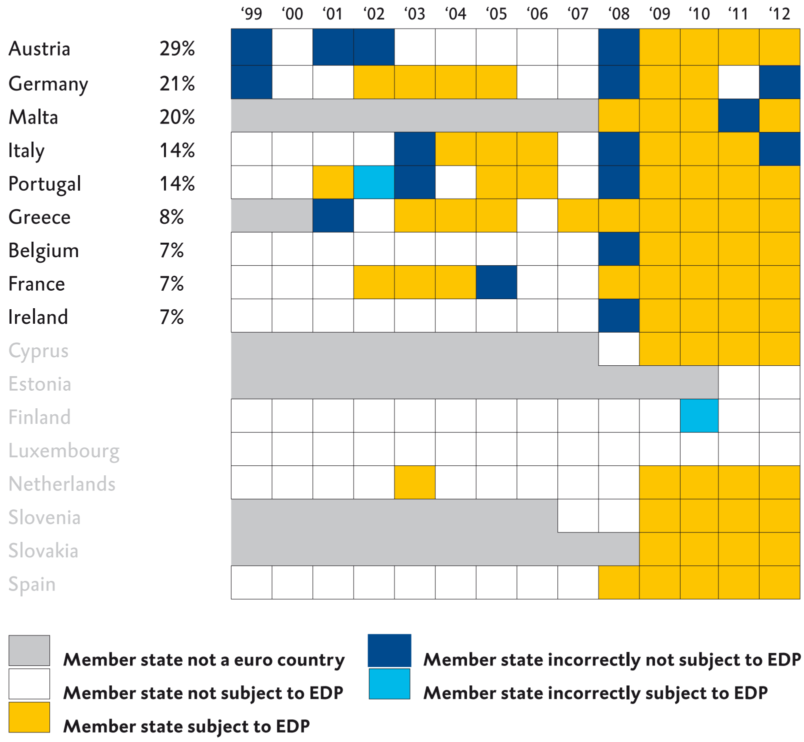
All EU member states must comply with the two budgetary reference values: a government debt of less than 3% of GDP and a government debt of less than 60% of GDP (or declining if the government debt is higher than 60% of GDP). Figure 10 shows that there is a difference between the euro countries' compliance with the budgetary reference values and the extent to which the Council decides to place them in the EDP. This difference is indicative of an enforcement deficit.

Euro countries did not comply with the reference values 48% of the time in 1999-2012 and did do 52% of the time. Yet we have seen that the EU member states were subject to the EDP for 40% of the period. There is therefore a potential enforcement deficit of 8% in respect of the euro countries. In 8% of the years between 1999 and 2012, euro countries did not comply with the rules but were not placed in the EDP.[46]

Figure 10 also shows when the euro countries did not comply with the budgetary reference values but were not placed in the EDP. This was the case with Austria in four years between 1999 and 2012 (29% of the period). Germany, Malta. Italy, Portugal, Greece, Belgium, France and Ireland, too, were incorrectly not placed in the EDP.

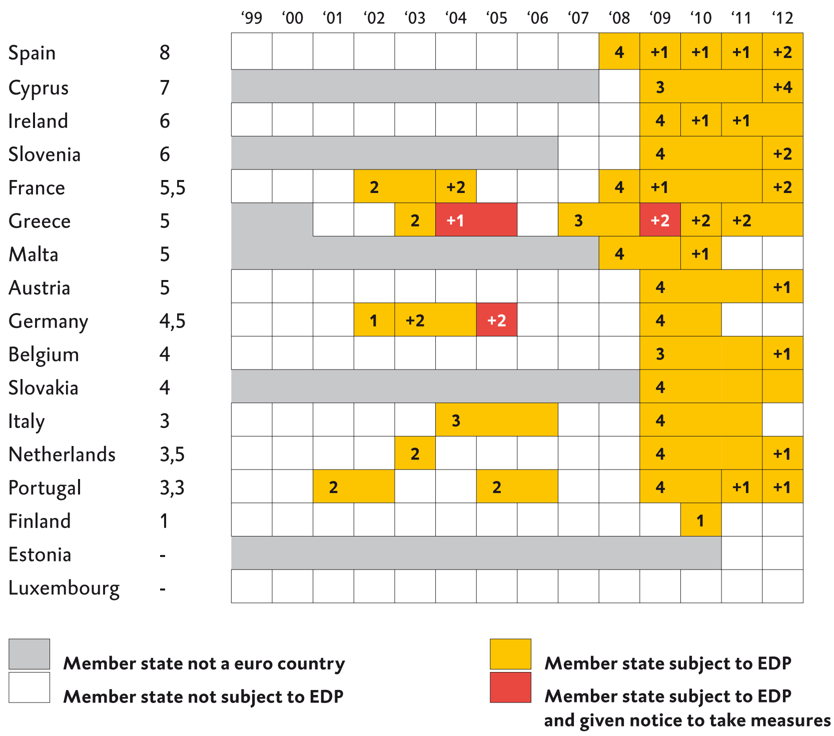
46 There are also situations in which euro countries were incorrectly placed in the EDP. This was the case with Finland in 2010. Finland was incorrectly placed in the EDP on the basis of preliminary figures that indicated a deficit. In 2011, however, it was found that there had been no excessive deficit in 2010. Something similar was initially suspected in Portugal in 2002. Portugal was placed in the EDP on the basis of preliminary figures, which proved incorrect a year later. The figures available now show that Portugal did indeed have an excessive deficit in 2002.

Figure 10 Euro countries' compliance with budgetary reference values (1999-2012)



Further analysis reveals that in particular the Council did not always enforce the reference value for government debt. In 94% of the case in which euro countries were not placed in the EDP, their government debt was higher than 60% of GDP and was not declining. In 6% of the cases (Ireland in 2008), the Council did not respond to an excessive government deficit.

Figure 11 Average number of years taken by euro countries to correct excessive deficits



Figures in the boxes are the number of years, where '+' indicates a country was granted a postponement

Regulation 1467/1997 specifies that member states as a rule have one year to correct an excessive deficit. In practice, they needed an average of 4.5 years to correct their budgetary situation in the period 1999-2012.
Between 1999 and 2012 there were 22 excessive deficit procedures in the euro area. Spain was given the most time to correct its deficit (eight years), followed by Cyprus (seven years) and Ireland (six years). All three of these countries received emergency support on account of exceptional economic circumstances.
Our analysis found that the Council applied the one-year time path only twice at the start of an EDP (Germany in 2002 and Finland in 2010). In 14 of the 22 procedures (63%), the Council granted an extension to the original deadline, in many cases even two extensions. The figure shows that the Council took account of the crisis as from 2008 by setting flexible deadlines and granting regular extensions for the entire euro area.

3.2 Macroeconomic surveillance

3.2.1 Functioning of detection

The functioning of the detection and prevention phases of the MIP is shown in figure 12.

The alert mechanism report (AMR) is the starting point of the annual MIP cycle. A scoreboard[47] with indicators and indicative thresholds[48] is used to prepare a report on the presence of potential macroeconomic imbalances. The scoreboard data are drawn chiefly from the European Statistical System (ESS)[49] and from the European System of Central Banks (ESCB). The European Commission also takes account of the integrated guidelines.[50]

Using information from the Commission, we determined how many member states exceeded the thresholds for the indicators in the 2012, 2013 and 2014 European Semesters (2014 is incomplete as the Semester has not yet been concluded) (table 7).[51] We found that 23 member states had exceeded the thresholds of the MIP indicators on 92 occasions in the 2012 European Semester (2011 AMR scoreboard) (euro countries 64 times, non-euro countries 28 times). In the 2013 and 2014 European Semesters the thresholds had been exceeded on 87 occasions (euro countries 63 times, non-euro countries 24 times) and on 93 occasions respectively (euro countries 67 times, non-euro countries 26 times).

47 The member states' 'score' on each of the indicators is available on the Commission's website at, http://ec.Europe.eu/economy_finance/indicators/economic_reforms/eip/sbh/index.cfm. Last consulted on 10 July 2014.

48 The thresholds are the same for all member states (with the exception of the indicators for real effective exchange rates and for unit labour costs, where a distinction is made between euro member states and non-euro member states). The 2010 scoreboard consisted of 10 indicators, covering the entire scope of supervision as laid down in Regulation 1176/2011. An 11th indicator, on total financial sector liabilities, was added to the 2011 and 2012 scoreboards.

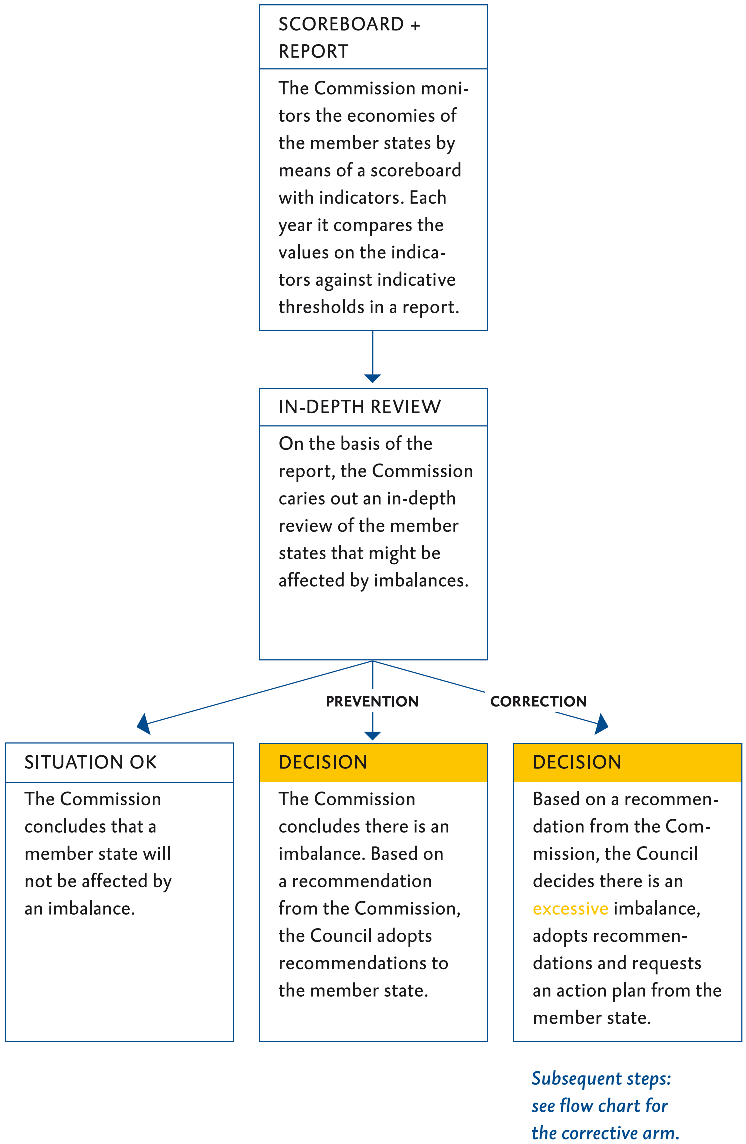
49 The ESS consists of Eurostat and all statistical offices, ministries, institutions and central banks that collect public statistics in the member states of the European Union, Iceland, Norway, Liechtenstein and Switzerland.

50 The integrated guidelines are the Broad Economic Policy Guidelines of the member states (Art. 121(2) TFEU), the specific guidelines of the euro member states (TFEU Art. 136 and Art. 121(2)) and the guidelines for employment policy (Art. 148 TFEU).

51 See table B1 in Annexe I for further details.

Figure 12 Detection and prevention phases of EU macroeconomic surveillance

Detection and prevention: imbalances



Under Regulation 1176/2011 there are three options: there is actually no imbalance, there is an imbalance or there is an excessive (or serious) imbalance. In this chapter we use the same terms the European Commission uses in its in-depth reviews, imbalance, serious, very serious and excessive imbalance (see table below).

The number of imbalances[52] that have arisen differs per member state from two to six. Most of the imbalances (total over three European Semester cycles) occurred in export market share (51), net international investment position (46), private sector debt (44), general government sector debt (42) and current account balance (30). The member states that exceeded the thresholds most frequently (over three European Semester cycles) were the euro member states Spain and Cyprus (both 18 times), the Netherlands (12), Finland and Luxembourg (both 11), and the non-euro member states

52 Under Regulation 1176/2011, an in-depth review has three possible outcomes: there is not an imbalance, there is an imbalance or there is an excessive (or serious) imbalance. In this chapter we use the same terms as the European Commission uses in its in-depth reviews: imbalances, serious, very serious or excessive imbalances.

Sweden, the United Kingdom and Hungary (each 10). The member states that exceeded the thresholds least were the euro member states Belgium and Slovenia (both 6) and Italy (7) and the non-euro member states Denmark and Poland (both 7), Latvia and Lithuania (each 6) and the Czech Republic (4).

Table 7 Summary of Alert Mechanism Report (AMR) and in-depth review in the context of the MIP in 2012-2014.

	2012*		2013**		2014	
Member state	**AMR**	**In-depth review**	**AMR**	**In-depth review**	**AMR**	**In-depth review**
Euro member states						
Belgium	x	X [R]	x	X [R]	x	>
Germany	x	-	x	-	x	>
Estonia	x	-	x	-	x	-
Ireland	MAP	MAP	MAP	MAP	x	-
Greece	MAP	MAP	MAP	MAP	MAP	MAP
Spain	x	X vsi	X vsi	x ei [R]	x ei	>
France	x	X si	X si	X [R]	X	>
Italy	x	X si [R]	X si	X [R]	X	>
Cyprus	x	X vsi	X vsi	Suspended on account of MAP^	MAP	MAP
Luxembourg	x	-	x	-	x	>
Malta	x	-	x	X [R]	x	>
The Netherlands	x	-	x	X [R[	x	>
Austria	x	-	x	-	x	-
Portugal	MAP	MAP	MAP	MAP	MAP	MAP
Slovenia	x	X si	X si	X vsi	X vsi	>
Slovakia	x	-	x	-	x	-
Finland	x	x	x	X [R]	x	>
Non-euro member states						
Bulgaria	x	x	x	x	x	>
Czech Republic	x	-	x	-	x	-
Croatia					x	>
Denmark	x	x	x	x	x	>
Latvia	x	-	x	-	x	-
Lithuania	x	-	x	-	x	-
Hungary	x	X si	X si	x	x	>
Poland	x	-	x	-	x	
Romania	MAP	MAP	MAP	MAP	MAP	MAP
Sweden	x	x	x	x	x	>
United Kingdom	x	X [R]	x	x	x	>
Total	23	12	23	13	24	16

X imbalance   si serious imbalance   vsi very serious imbalance   ei excessive imbalance

^ The 2013 AMR disclosed that 14 member states had been subject to in-depth review. The review of Cyprus was suspended on account of MAP and the review report was not made public.

> member state that qualified for in-depth reviews to be published in April 2014.

[R] Council recommendations to amend Commission MIP recommendations.

In the 2012 European Semester, the European Commission carried out in-depth reviews of 12 member states. In the 2013 European Semester, 13 member states were reviewed. In the AMR published on 13 November 2013 for the 2014 European Semester, the Commission identified 16 member states that qualified for in-depth review: the euro countries Spain, Slovenia, France, Italy, Belgium, Malta, the Netherlands, Finland, Germany and Luxemburg and the non-euro countries Hungary, Bulgaria, Denmark, Sweden, the United Kingdom and Croatia. The Commission concluded from the in-depth reviews it carried out that 14 countries were experiencing imbalances. They are the above countries excluding Denmark, Malta and Luxemburg, plus Ireland. The Commission did not say whether the imbalances were excessive.

3.2.2 Functioning of prevention: recommendations

The European Commission has discretionary power to conclude from an in-depth review that a member state is experiencing an imbalance and, if so, whether the imbalance is excessive (serious) or not. If the Commission decides that there is a macroeconomic imbalance it can recommend that the Council address country specific recommendations to the member state. The recommendations are combined with the recommendations made within the context of the MIP and Europe 2020 in the European Semester and are adopted by the Council in July.[53]

The Commission concluded from the in-depth reviews carried out in May 2012 that four member states were experiencing serious imbalances: France, Italy and Slovenia and the non-euro member state Hungary. The Commission concluded that Spain and Cyprus were experiencing very serious imbalances. The in-depth review of April 2013 concluded that France, Italy and Hungary were no longer experiencing serious imbalances. Cyprus was placed under the MAP programme conditions and was accordingly not subject to the excessive imbalance procedure. The imbalances in Spain and Slovenia were classified as excessive.

In neither case did the Commission conclude that the imbalances jeopardised or threatened the smooth functioning of EMU within the meaning of Regulation 1176/2011. At the end of the preventive phase, the Commission therefore made use of its discretionary powers and did not recommend that the Council initiate the corrective phase. According to the Commission, the corrective arm was not initiated for Spain and Cyprus because of their ambitious NRPs and SPs. In the current European Semester, the Commission has concluded that the imbalances in Croatia, Italy and Slovenia are excessive. In the case of Spain, it has concluded that the imbalances are no longer excessive but it will continue to monitor Spain as part of its post-programme surveillance under the Two Pack. For the three member states with excessive imbalances, the Commission will decide in June 2014 in the context of its proposals for country specific recommendations whether and, if so, what corrective measures are necessary.

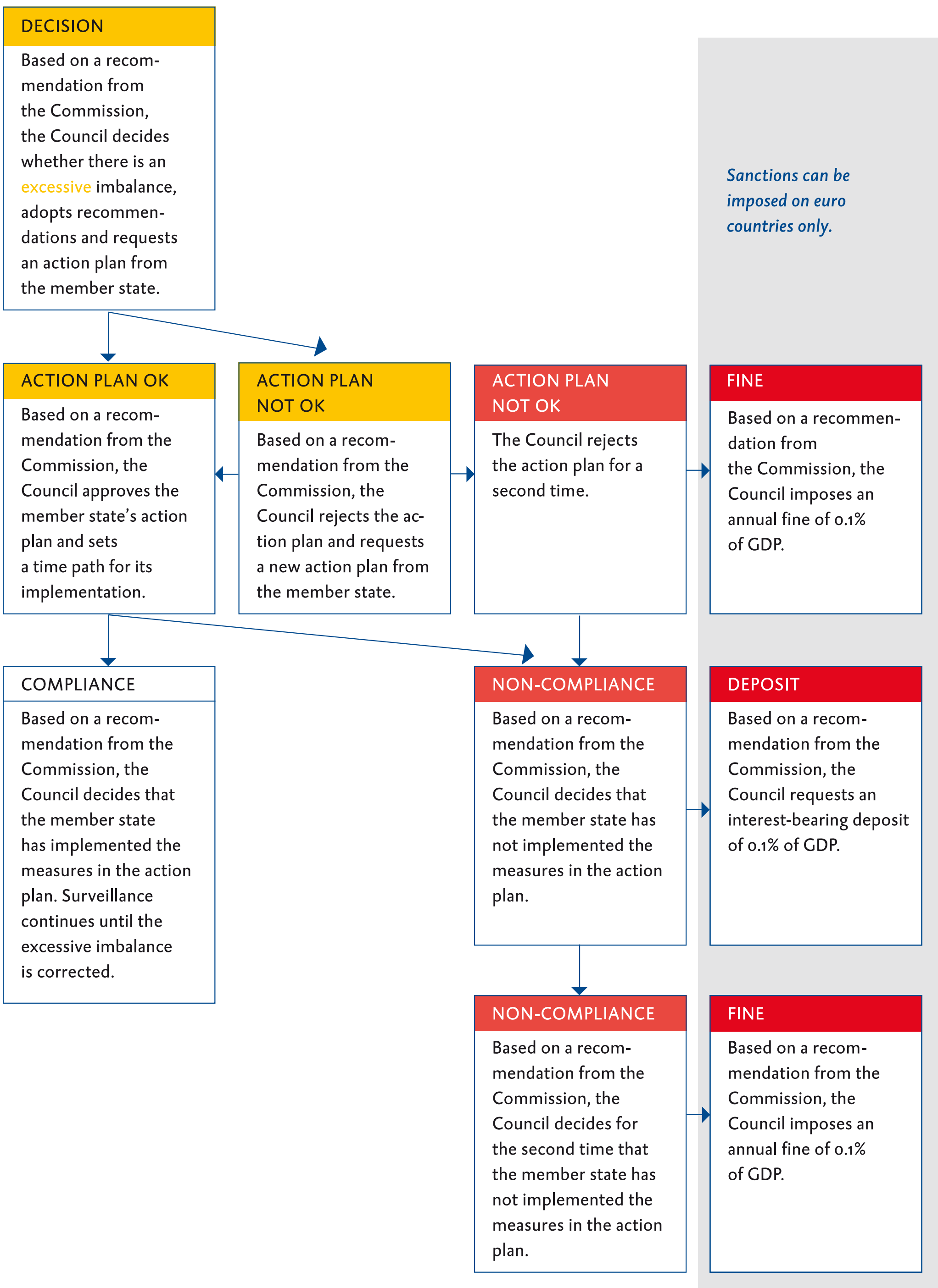
53 In accordance with the 'comply or explain' principle (Regulation 1466/96), the Council is obliged to explain amendments it makes to the Commission's MIP recommendations. See Regulation (EC) no. 1466/97 Article 2-ab(2).

3.2.3 Functioning of correction: action plan and sanctions

The functioning of the corrective phase of the MIP is shown in figure 13.

Figure 13 Correction phase EU macroeconomic surveillance

Correction: excessive imbalances



The corrective arm of the MIP[54] begins when the Council (acting on a recommendation from the Commission) accepts a recommendation that recognises an excessive deficit and recommends that the member state take corrective action.[55] The member state must submit an action plan, on the basis of which recommendations are made. On a recommendation from the Commission, the Council can decide to impose financial sanctions on euro countries.[56]

To date, not a single member state has been placed in the corrective arm of the MIP. The functioning of the MIP has therefore been confined to the preventive arm, with recommendations being combined with other country specific recommendations made in the context of the European Semester. We return to this matter in section 3.4.

3.3 Coordination of structural reforms

3.3.1 Objectives and organisation of the Europe 2020 strategy

Europe 2020, the EU growth strategy for the period 2010-2020, consists of five headline targets in respect of employment, innovation, education, social cohesion, and energy and climate. It also comprises seven flagship initiatives. The strategy's five headline targets have eight indicators with EU-level targets that have been translated into national targets to take account of different situations and circumstances. The headline targets and indicators are quantitative in nature, unlike the flagship initiatives, which have qualitative measures and action points. The strategy was introduced by the Commission and approved by the Council in 2010 (European Commission 2010c; European Council 2010). The Europe 2020 strategy is implemented within the framework of the integrated guidelines.[57]

54 If a member state is subject to enhanced surveillance by the Commission – because it is experiencing or in danger of experiencing serious difficulties regarding its financial stability and requests financial support from the emergency measures – the member state is made subject to a macroeconomic adjustment programme. In this case the MIP does not apply during the programme.

55 Article 121(4) TFEU.

56 Enforcement Regulation 1174/2011 provides enforcement measures to correct excessive macroeconomic imbalances through the imposition of financial sanctions. They can be: (1) an interest-bearing deposit equal to 0.1% of the previous year's GDP if the member state has not implemented the measures recommended by the Council, (2) an annual fine equal to 0.1% of the previous year's GDP for euro member states and for member states that receive two successive recommendations from the Council during the same imbalance procedure and, in the Council's opinion, the action plan with corrective measures submitted by the member state is not sufficient, (3) if the Council takes two successive decision in the same imbalance procedure in which it establishes that a member state has not complied with a recommendation, the interest-bearing deposit is converted into a fine.

57 Recommendation of the Council of 13 July 2010 on broad guidelines for the economic policies of the member states and the Union (2010/410/EU) and Council Decision of 21 October 2010 on guidelines for the employment policies of the member states. The guidelines are far from specific and are difficult to measure. Discussions with the relevant ministries found that little use was made of the guidelines in practice. Priority was given to the national reform programmes and the guidelines were seen as strategic guidance used by the European Commission.

Table 8 The Europe 2020 strategy

Headline targets	Components	Guidelines	Indicators	Targets	Reports	
By 2020, the EU will be a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion	Five priorities: • Employment • Innovation • Education • Social cohesion • Energy and climate Seven flagship initiatives: *Smart growth* • Digital agenda for Europe • Innovation Union • Youth on the move *Sustainable growth* • Resource efficient Europe • Industrial policy for the globalisation era *Inclusive growth* • Agenda for new skills and jobs • European platform against poverty	Ten integrated guidelines, six for the economy and four for employment: • five have quantitative targets • five are qualitative.	Eight indicators for the five priorities: • three for energy • three for education • one for employment • one for innovation • one for social coherence.	• The eight indicators have quantitative targets that are translated into national targets for the member states. • The seven flagship initiatives contain measures and action points, chiefly qualitative.	Laid down in the European semester. *European Commission* • 'Annual Growth Survey' and country specific recommendations *Member states* • Annual progress reports (National Reform Programmes)	• Open Coordination Method, not legally binding. • Policy warning by the European Commission if a member state does not implement a recommendation within two years. Not legally binding.

3.3.2 Implementation of the Europe 2020 strategy

Targets

The Europe 2020 strategy uses the Open Coordination Method (OCM). Decisions based on OCM do not have binding effect. European institutions therefore cannot hold member states to their agreements but the European Commission and the Council can do so by means of, for example, country specific recommendations at the end of the European Semester. Europe 2020's implementation is monitored by means of the National Progress Reports (NRPs) and by comparing the scoreboards kept for the member state.

Owing to the great diversity among the member states, the national translation of the headline targets differs from one country to another. Each country can adapt the EU targets to its own specific national situation in each policy field. Performance on the headline targets can therefore also differ. A group of leaders or stragglers cannot be identified in the EU.

Table 9 shows which targets have been set for each policy field and the current situation both EU wide (on the basis of aggregated data) and at national level in 2012 (Eurostat 2012).

Table 9 EU Headline targets and results of Europe 2020 at EU and national level

Headline target	EU target under Europe 2020	Dutch target under Europe 2020	Status 2012	Status NL 2012
Employment				
Percentage of 20 to 64-year-olds in paid work.	75%	80%	68.5%	77.2%
Research and development				
Percentage of GDP spent on R&D.	3%	2,5%	2.06%*	2.16%
Climate and energy				
Percentage greenhouse gas emission reductions since 1990.	20%	16%**	-	-
Percentage of renewable sources in gross energy consumption.	20%	14%	-	-
Primary energy consumption will be reduced to:	1,474,000 kTOE	Not quantified.	-	-
Education				
Percentage of 18 to 24-year-olds leaving school without basic qualifications.	< 10%	< 8%	12.8%	8.8%
Percentage of 30 to 34-year-olds with a professional or higher education diploma.	≥ 40%	≥ 45%	35.8%	42.3%
Poverty and social exclusion				
Reduce the number of people at risk of poverty or social exclusion relative to 2005 by:	20 million	100,000	124.2 million / 24.8%* / ***	2.5 million / 15.0% ***

* Estimate

** Relative to 2005

*** These are the absolute numbers and percentages, not the decline relative to 2005

The table shows that, based on the available data, the EU as a whole had achieved none of the targets by 2012. No data on 2012 are available yet in the climate and energy field. The Netherlands, too, has not yet achieved any of its targets although the actual figures in some fields (employment, education) are approaching the targets for 2020.

The Dutch NRPs

Member states must submit NRPs to the European Commission and give an 'appropriate response' to the country specific recommendations made by the Commission and the Council (European Commission 2010c). Three quality requirements have been set for the NRPs:

- they must be submitted at the same time as the SCPs and the two documents must have cross references;
- they must consider the 'thematic approach' and the country specific recommendations and the way in which they are implemented;
- the social partners and local authorities must be involved in their preparation.

The Dutch NRPs for 2010-2012 satisfy the first two requirements. Regarding the third, the government intends to involve the local authorities and social partners in the development of the European Semester and the preparation of the NRP in so far as possible. In practice, these actors have only limited influence because the foundations of national policy are laid down in the Coalition Agreement and are worked out in the policy cycle.

In all three years, the programmes referred to both the national and EU goals and targets for all five of the EU headline targets.[58] Our analysis of the NRPs for 2010-2012 found that:

- the Dutch targets regularly deviate from the EU targets. This is possible (Ministry of EL&I, 2012, p. 19) but such deviations had not been seen in earlier programmes;
- the Dutch targets in the national reform programmes are almost always the same. The Ministry of Economic Affairs explained that the policy extended over several years on the one hand and that the Europe 2020 targets must be kept as stable as possible for monitoring purposes;
- the programmes reflect the ambitions of successive governments as laid down in their Coalition Agreements.[59] The Netherlands´ aim is to have the targets and the policy presented in the NRPs agree with the national policy paths. Policy is not prepared on account of the Europe 2020 targets and recommendations, and policy is not formulated especially for Europe 2020. The opposite is the case: national policy in the Coalition Agreement is 'translated' to the Europe 2020 strategy.

3.3.3 The future: strengthening socioeconomic policies in the euro area

The European Commission is of the opinion that the economic crisis has made it more difficult for the member states in the euro area to achieve the Europe 2020 targets (European Commission 2013b). Unemployment has risen in most member states and the differences in employment and social equality in the member states have widened. To give the social dimension of EMU more weight in European economic governance,

58 See table B2 in Annexe II.

59 An explicit reference is made to the Coalition Agreement. Conversely, the Coalition Agreements of the first and second Rutte governments do not refer to Europe 2020 or the European Semester. Unlike the Coalition Agreement, the budget cycle does make such references, albeit to a limited extent.

the Commission has proposed intensifying the monitoring in social and employment areas and making it part of the macroeconomic surveillance. The Commission has also proposed that a scoreboard of key indicators be kept to track social and employment developments. This information is considered by the Ecofin and Epsco Councils and in the analyses underpinning the MIP, such as the in-depth reviews.

3.4 European Semester: country specific recommendations

CONCLUSION: EUROPEAN SEMESTER
Country specific recommendations for EU 28

The European Semester combines elements of budgetary surveillance, macroeconomic surveillance and economic coordination. The country specific recommendations relate to all of these elements and form the closing piece of the European Semester; the member states must implement the recommendations during the national semester.

3.4.1 'Hardness' of the recommendations

Classification of hardness

Every package of country specific recommendations[60] is a product of all the instruments used by the EU institutions for budgetary surveillance, macroeconomic surveillance and the coordination of structural reforms.[61] It is evident from the country specific recommendations themselves and the considerations that preceded them that these instruments and the obligations that arise from them are interrelated. The Council, for example, studies the member states' NRPs and SCPs in the light of the Commission's in-depth reviews and assessment of potential imbalances (MIP). But there are also differences. Three different legal regimes apply to the three instruments that produce the country specific recommendations. How hard the obligations are differs accordingly. 'Hard' means the extent to which the obligations are binding on the member states and may lead to a sanction if they are not abided by, as shown in table 10.

60 These are Council recommendations on the NRP and a Council recommendation on the SCP. These recommendations are integrated for each member state. In this chapter we refer to a 'package of country specific recommendations'.

61 There were two instruments in 2011, the SGP and Europe 2020. When the country specific recommendations were made in 2011, the MIP had not yet come into force. The instruments in 2012 and 2013 were the SGP, MIP and Europe 2020.

Table 10 Hardness of instruments and obligations

Instrument	Obligation	Details provided in:	Binding?	Financial sanction?	Enforceable?
Europe 2020	Submit NRP	guidelines*	No	No	No
SGP	Submit SCP	Regulation (1466/97)	Yes	No	No
MIP	Prevent/reduce imbalances (I)	Regulation (1176/11)	Yes	No	No
SGP	Prevent/reduce excessive deficits (ED)	Regulation (1467/97)	Yes	Yes	No**
MIP	Prevent/reduce excessive imbalances (EI)	Regulation (1176/11)	Yes	Yes	Yes
SGP	Achieve medium-term objective (MTO)	Regulation (1466/97)	Yes	Yes	Yes

* The integrated guidelines of Europe 2020. Country specific recommendations refer to articles 121(1) and 148(4) TFEU. On the basis of these articles, the Council has adopted ten guidelines (BEPG and guidelines on employment) (Recommendation 11646/10 and Decision 2010/707/EU, amended by Decision 2013/208/EU). The member states prepare their annual NRPs 'in agreement with these guidelines'.

** Further to Art. 126(10) TFEU, infringement procedures are not excluded in the framework of the EDP.

The Europe 2020 obligation to prepare and submit an NRP is not binding: non-compliance cannot lead to a financial sanction and compliance is not enforceable. The preparation and submission of an SCP and the prevention and correction of imbalances, by contrast, are binding but are not sanctionable or enforceable. The prevention and correction of excessive deficits are binding and sanctionable but not enforceable by the court.[62] Achievement of the MTO for the budget and the prevention and correction of excessive imbalances are binding, sanctionable and enforceable. This leads to the following classification (table 11):[63]

Table 11 Classification of hardness of instruments and obligations

Hardness score	Instrument (obligation)
0	Europe 2020 (NRP)
1	SGP (SCP), MIP (I)
2	SGP (ED)
3	SGP (MTO), MIP (BI)

62 The EDP does not fall within the scope of the European Semester (within the meaning of Art. 2-a (2) Regulation 1466/97). The EDP is included in this classification because it is part of the corrective arm of the SGP and the recommendations can also relate to excessive deficits (see table B3 in annexe III).

63 The opinion on hardness is based on the instrument in which the obligation is laid down (i.e. in a non-binding guideline or soft law). We formed an opinion on the individual procedures that lead to country specific recommendations and not on the package of recommendations as a whole, which is a Council recommendation to make country specific recommendations. Recommendations are soft law by definition. Nevertheless, those that arise from the SGP or the MIP have a more binding character.

Findings

Table 12 Number of recommendations

	2011	2012	2013
*Number of member states with recommendations	22	23	23
Number of recommendations	118	138	141
Average per member state	5.4	6.0	6.1

* A number of member states do not receive country specific recommendations in the European Semester, e.g. member states that receive emergency support and/or must implement a macroeconomic adjustment programme.

It can be seen from table 12 that the number of country specific recommendations has increased year on year, particularly between 2011 and 2012. Further analysis shows that a large proportion of the country specific recommendations made in 2012 had the same or a similar tenor as those made in 2011. New recommendations were made in 2012 as well as repeated recommendations, as shown in table 13.

Table 13 Tenor of recommendations 2012 tov. 2011

	All country specific recommendations		All country specific recommendations excluding new ones	
Identical/comparable	98	69%	98	83%
Different	12	8%	12	10%
No further recommendations	8	6%	8	7%
New recommendations	23	17%	-	-
Total	142*	100%	118	100%

* The total of 138 country specific recommendations in 2012, as shown in table 10, is correct. It is based on the Council's recommendations to make country specific recommendations. This differs from the total of 142 country specific recommendations made in 2012 as shown in the table above. This total is based on Commission recommendations for country specific recommendations because the Council recommendations had not been adopted when we completed our study. The Council did not accept the Commission's proposals in a number of cases.

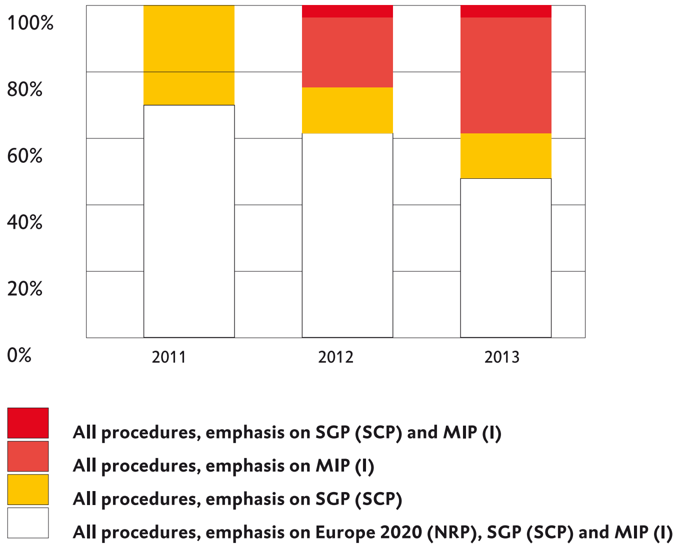
If new country specific recommendations are not taken into account, 83% of the recommendations made in 2012 had the same or a similar tenor as those made in in 2011. Many recommendations are made, but many of them are repetitions. Member states must ´adequately´ take account of the country specific recommendations addressed to them and the Commission monitors their progress. ´Further recommendations´ can be made if a member state fails to follow up a country specific recommendation. Country specific recommendations that are not implemented in full are apparently repeated until they are.

Each package of country specific recommendations is based on two (2011) or three (2012-2013) instruments. Recommendations are made when a member state does not comply in full with two or three legal regimes, which differ in their 'hardness'. By definition, moreover, the country specific recommendations contain duplications as they entail obligations arising under the Europe 2020 strategy, the SGP and the MIP.

As a result they can be divided into four categories: a country specific recommendation arises from (1) all instruments, (2) principally the SGP, (3) principally the MIP, and (4) principally the SGP and MIP, which determines the hardness of the country specific recommendation in question.

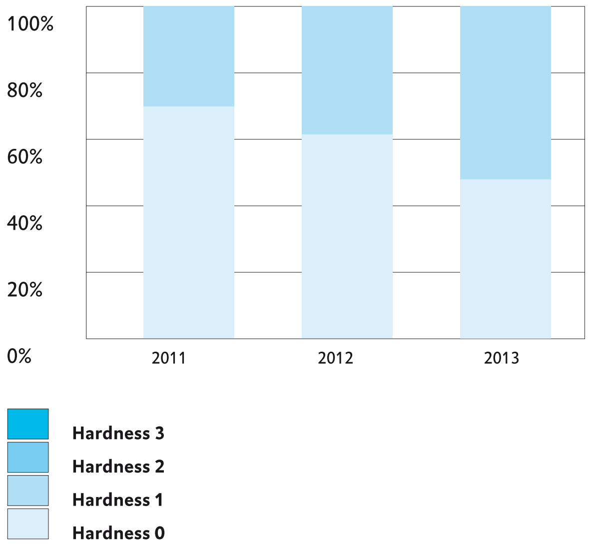
Figure 14 shows which instruments and obligations of the European Semester are relevant to the country specific recommendations.

Figure 14 Instruments and obligations relevant to country specific recommendations



It was seen from table 11 that the hardness of the obligations resting on the member states ranges from 0 to 3. Figure 15 shows that in practice the country specific recommendations are obligations with a hardness of 0 (68% in 2011, 61% in 2012, 48% in 2013) or of 1 (32% in 2011, 39% in 2012, 52% in 2013).[64]

Figure 15 Hardness of recommendations



64 We have given the country specific recommendations that relate to all instruments a hardness of 0 and those with an emphasis on the SGP and/or MIP a hardness of 1.

Country specific recommendations therefore relate to the 'least hard obligations' of the European Semester, although the proportion with a hardness of 1 increased between 2011 and 2013. More of the recommendations have therefore been binding obligations rather than non-binding.

3.4.2 Follow-up to recommendations

The national governments' implementation of the country specific recommendations is an important aspect of the European Semester. Since the recommendations are authorised by the European Council and adopted by the Council, it can be assumed that national governments will act on them. Since 2012, member states have had to take account of the country specific recommendations addressed to them before taking 'key decisions on the national budgets for the succeeding years'.[65] Moreover, the member states' budgetary procedures must be consistent with the country specific recommendations.[66] Country specific recommendations are therefore important to the member states because they can influence the national budgetary process.

On the basis of a study by the European Parliament (2013) we analysed the implementation in 2013 of the country specific recommendations made in 2012, also in relation to the policy fields in which the recommendations had been made. The European Parliament's study had found that a country specific recommendation could cover more than one policy field and may therefore consist of several recommendations. The European Parliament has divided the recommendations into six policy fields and 40 subcategories and then scored them: the 138 recommendations made in 2012 were scored 382 times in total under the six policy fields and 40 subcategories (see table B3 in annexe I).

EU 28

The six policy fields and 40 subcategories are widely divergent. The packages are therefore not only based on a combination of different instruments subject to different legal regimes but also cover different substantive areas. This is determined by the addressant of the country specific recommendation and has consequences for the extent to which the EU actually has something to say in a member state.[67]

Our analysis found that the member states implemented the country specific recommendations in part or in full relatively frequently (together 64%) (see table B3 in annexe I). However, in a quarter of the cases implementation was promised but it is not known if the recommendation was actually implemented. In social policy, for example, implementation is often promised but the proportion of 'country specific recommendations implemented in full' is the lowest in this field. On average, more than 12% were not implemented and/or were not named in the member states' national programmes or were not implemented. In all other policy areas with the exception of fiscal policy (covering taxes, pensions and the MTO), where 18% of the recommendations were not implemented, the implementation rate was less than 10%.

65 Regulation 1466/1997, Art. 2-a (3).

66 Regulation 473/2013, Art. 3 (1).

67 The EU has, for example, exclusive powers in the field of monetary policy in the euro countries and in the adoption of competition measures, and shares powers with the member states in the field of the environment, but can only support or complement the member states in the fields of education and youth policy. These are examples of policy fields that are affected by country specific recommendations.

The Netherlands

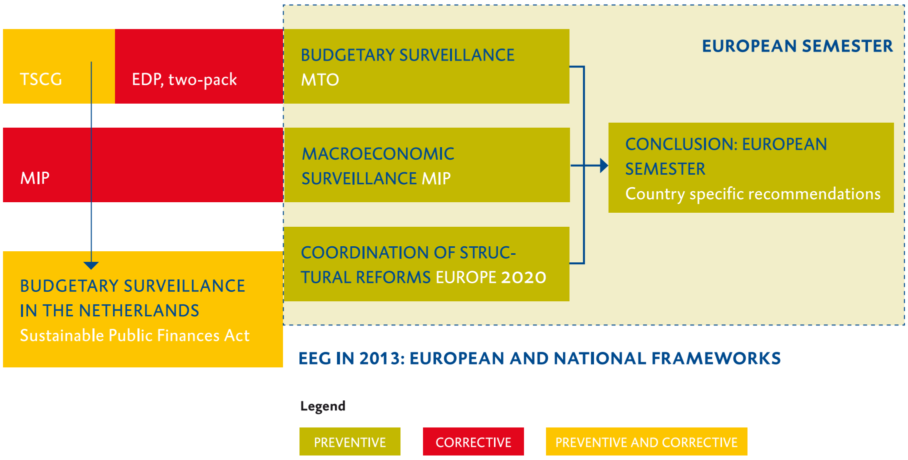
The repetition of many recommendations from one year to the next may indicate that it can take several years to implement a country specific recommendation simply because the implementation of policy measures takes time. In the Netherlands, country specific recommendations and their implementation are recognised individually in ministerial budgets.[68] Finally, country specific recommendations are often made in policy fields that are already 'problematic' and measures will be taken as a matter of course, not because a recommendation has been made but because of the policy field and issues in question have already been named in the Coalition Agreement.

68 Motion submitted by Gerard Schouw MP, 22 June 2011, session 2010-2011, Parliamentary Paper 21 501-20, no. 537.

4 European economic governance and budgetary coordination in the Netherlands

European economic governance and budgetary coordination in the Netherlands
In this chapter we look at the situation in the Netherlands, as shown in figure 16. The previous chapter presented a country comparison of the functioning of the EEG rules: budgetary surveillance, macroeconomic surveillance, Europe 2020 and the country specific recommendations in the context of the European Semester. The findings included the results for the Netherlands, and will therefore not be repeated here.

Figure 16 Key components of EEG in 2013



Key elements

New EEG rules have relatively little substantive affect for the Netherlands
Since the SGP came into force in 1997, there has been little substantive change in European economic governance for the Netherlands. Since the SGP's introduction, member states have had to share their budgetary plans for the coming years with the EU in the spring of each year. The current financial and economic crisis has exerted additional pressure on national budgets and the EU's new powers are casting their shadow more strongly on budgetary negotiations in the autumn. In practice, member states that must make significant spending cuts, such as the Netherlands, are debating the following year's budget in greater depth early in the spring.

Stricter medium-term objective
A significant change is that the medium-term objective (MTO) has been tightened up and laid down in the Sustainable Public Finances Act. If the Netherlands does not comply with the MTO or the adjustment path towards it, it must implement the Council's recommendations within five months in order to correct the deviation from the MTO. The recommendations relate to the size of the budget and a time path for the Dutch government's implementation of the policy measures. No recommendations were addressed to the Netherlands in the period to the end of 2013 because it was not subject to the corrective arm of the EDP at the time. In such circumstances achievement of the MTO is not applicable. It only becomes relevant if a member state has corrected its excessive deficit. Parliament retains the right to approve the budget during the EDP.

Increased number of European moments in the Dutch budgetary cycle
Under the new European rules, both chambers of the States General must approve the national budget for the following year before the end of the year. The number of 'European moments 'in the Dutch budgetary cycle has increased since the Six Pack and the Two Pack rules came into force (see section 2.1.2). There is a continuous dialogue between the EU, parliament and the government. The government must now submit the draft versions of the national reform programme and the stability programme to the House of Representatives and the Senate earlier in the spring so that both chambers can hold a plenary debate of it before it is submitted to the European Commission.

Quality of Dutch EMU data open to improvement
The quality of Dutch EMU data - and the reliability of the underlying financial information - generated by local authorities and the care sector is open to improvement. The Minister of Finance, Statistics Netherlands and the local authorities took a series of measures in 2013 to improve the quality of the data.

4.1 Implementation of European economic governance in the Netherlands

Responsibility for the implementation of European economic governance in the Netherlands lies primarily with the Ministers of Finance and of Economic Affairs. They coordinate the Dutch position for meetings of the Eurogroup and the Ecofin council. The Ministry of Foreign Affairs and, in particular, the Permanent Representative in Brussels liaise between the Netherlands and the EU and hold consultations with other member states. A large number of other ministries are also involved (see figure 17).

Figure 17 Actors in European economic governance in the Netherlands

4.2 The national budget cycle

4.2.1 Budgetary dialogue

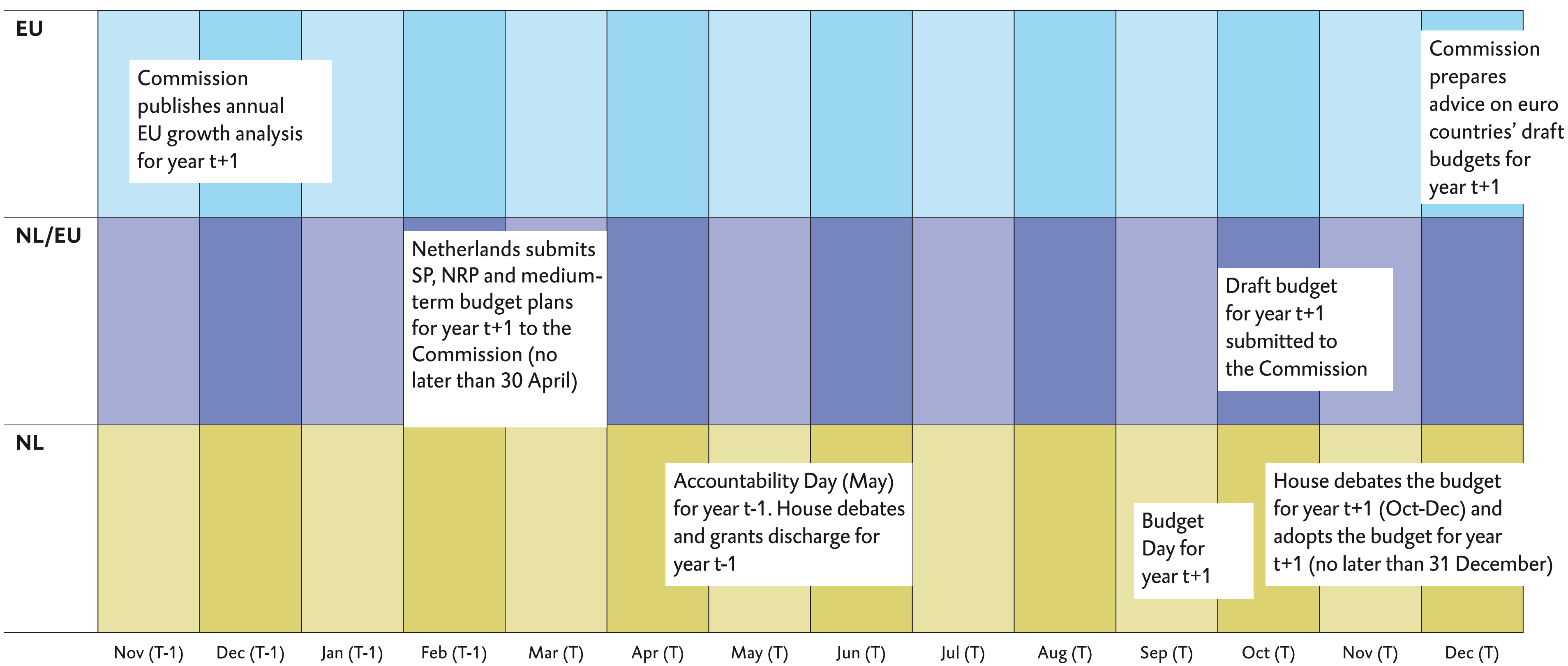
The legal and administrative context of European economic governance is reflected in the national budget cycle. A continuous dialogue is held between the EU EU, the government and parliament, with various moments for the Senate and the House of Representatives to assess and influence the dialogue during the year. Figure 18 shows the main steps in the national budget cycle and European economic governance.

Parliament is consulted at set moments during the European Semester. The findings of the Commission's annual growth analysis are sent to the EU councils in November/December for debate in January and February. The agendas and the Dutch position are discussed in advance by the House of Representatives. The House of Representatives also discusses and makes preparations for the EU Spring Council in March.

The national priorities are set between April and June. Parliament debates the draft SP and NRP in April before they are submitted to the Commission. The Commission issues its draft country specific recommendations in May, after which they may be amended by the Council. The Council's agenda is discussed in advance by the relevant House committees. The Ecofin and Epsco Councils discuss the country specific recommendations in June and the Council that formally adopts the recommendations closes the European Semester. A plenary session of the House of Representatives debates the Dutch position before and after the Council. The 'national semester' then begins, with policy being implemented and the budget for the following year being adopted. This is done during the customary debate of the budget by the Senate and House of Representatives.

Until the end of 2013 the Senate debated the SP and NRP and the country specific recommendations in June each year. On a proposal from the Senate, the debate was brought forward and the Ministers of Finance and of Economic Affairs proposed that the SP be submitted to the Senate no later than the second week of April as from 2014 and the NRP slightly earlier. It will thus be possible for plenary sessions of the Senate and the House of Representatives to debate both documents before they are submitted to the European Commission (Senate, 2014).

Figure 18 Key moments in European economic governance and the Dutch budget cycle



EU = European budgetary coordination

NL/EU = European moments in Dutch budget cycle

NL = national moments in Dutch budget cycle

4.2.2 Changes in the Dutch budget cycle

The European Semester and the national budget cycle are complementary. The number of moments at which documents must be sent to Brussels has increased, as has the number of moments at which the EU and the Netherlands consult each other on the budget. There is now a continuous dialogue on the budget between the EU (European Commission and Council) and the Netherlands (government and parliament). Parliament's powers and the national budget and accountability processes are largely unchanged. The debate of the SP gives parliament an extra opportunity to consider the budget half way through year t. It considers the budget in broad lines because the SP contains less detailed information than the Budget Memorandum. The only formal change in the national budget cycle is that the budget for year t+1 must be approved by both the Senate and the House of Representatives by 31 December of year t, although the member states may apply the reversionary budgetary procedures if the deadline is no longer feasible (Netherlands Court of Audit, 2013b).[69]

4.3 Content and scope of the Sustainable Public Finances Act

The Sustainable Public Finances Act (HOF ACT) is a key element of European economic governance in the Netherlands alongside the provisions of the SGP, Six Pack and Two Pack. The HOF Act transposes the TSCG obligations on European budgetary rules - the budget pact[70] - into national legislation. It also lays down national budgetary rules.

4.3.1 Scope of the HOF Act

The Dutch parliament passed the HOF Act on 11 December 2013. It came into force on 15 December 2013.[71] The Act transposes the European reference values for government deficit, government debt and the medium-term objective into Dutch legislation. It therefore fulfils the obligations under the TSCG to incorporate into national (formal) legislation (1) the EU reference values for trend-based budget policy, and (2) the automatic correction mechanism.

The HOF Act also lays down the Netherlands' trend-based budget policy:[72] fixed expenditure frameworks that are set at the beginning of each government's term of office, automatic stabilisation on the income side of the budget by debiting or crediting setbacks or windfalls from or to the EMU balance, and budget policy based on multiyear figures and macroeconomic projections made by the Netherlands Bureau for Economic Policy Analysis.[73] The aim is to protect budget policy from cyclical swings, which should enhance the consistency and development of a long-term policy vision.

69 This is referred to as the 'summary budget debate'. Report of a written consultation, adopted 18 July 2013, Senate, session 2012–2013, 33 181, C.

70 TSCG, title III, articles 3-8.

71 Act of 11 December 2013 on sustainable finances of the collective sector (Sustainable Public Finances Act), Bulletin of Acts and Decrees 2013, 531.

72 The Explanatory Memorandum to the HOF Act states, 'Legal incorporation of the disciplinary effect of trend-based budget policy and of the Netherlands' requirement to achieve the medium-term objective for public finances set by the Council provides additional guarantees and assurances to place and keep public finances on a sustainable path'. Act on sustainable finances in the collective sector (Sustainable Public Finances Act), Explanatory Memorandum, House of Representatives, session 2012-2013, 33 416, no. 3.

73 As noted in the Explanatory Memorandum to the Act on sustainable finances of the collective sector (Sustainable Public Finances Act, House of Representatives, session 2012-2013, 33 416, no. 3).

The HOF Act therefore contains provisions on both Dutch trend-based budget policy and European policy. The Explanatory Memorandum to the HOF Act clearly states that Dutch trend-based budget policy must be consistent with the European reference values for the MTO, the EMU deficit and the EMU debt, and with the preventive and corrective arms for compliance with and enforcement of those reference values. The Netherlands Court of Audit (2013c) noted in this respect that trend-based budget policy could not be implemented as intended in recent years on account of the deficit reference value in the SGP and the actual EMU balance.

Trend-based budgeting is applicable to three expenditure frameworks of central government: care; social security and the labour market; and the central government budget in a narrow sense. It is not applicable to local authorities or legal persons with statutory tasks (RWTs) even though they play a role in budget policy. Central government and the local authorities have agreed that the government deficit allocated to local authorities may not exceed 0.5% of GDP. The precise allocation of the permitted deficit to central government, local authorities and RWTs can vary. The HOF Act therefore refers to an 'equitable effort'.

The second obligation of the TSCG relates to the automatic correction mechanism. The mechanism comes into play if there are significant deviations from the MTO or the adjustment path towards it.[74,75] The government must take appropriate measures to limit expenditure and/or increase revenue if the competent institutions of the EU (the Council and the Commission) decide that the budget policy implemented does not adequately lead to the MTO. The Council then addresses a recommendation to the member state[76] specifying the size of the budget and a time path for the measures to be taken. The government has to outline the measures in a recovery plan. The Minister of Finance submits the recovery plan to the States General and hears the Council of State's opinion on it. The States General are informed of the implementation of the recovery plan at least once a year by means of the Budget Memorandum.

In a letter to the Senate on European economic governance, we concluded that the automatic correction mechanism in the HOF Act contained elements that had implications for parliament's right to approve the budget (Netherlands Court of Audit, 2013b). The HOF Act, however, did not come into force until 1 January 2014 and to date there has been no cause to apply the automatic correction mechanism. We have therefore been unable to study the functioning of the Act in practice.

74 Explanatory Memorandum, Parliamentary Paper II 2012/2013, 33 416, no. 3.

75 The correction mechanism must be consistent with principles set by the Commission. The Commission published the principles on 20 June 2012. They are presented in box 2 in the Explanatory Memorandum, which also considers in detail how the HOF Act satisfies generally accepted principles.

76 If there is a significant deviation from the MTO, the Commission addresses a warning to the member state and, on a recommendation from the Commission and within one month of the warning, the Council issues a recommendation if necessary for the 'necessary policy measures'. Art. 121(3) in conjunction with Art. 121(4) TFEU; Regulation 1175/2011, Art. 6.

4.3.2 Role of local authorities and quality of supporting information

The HOF Act contains several rules that apply to local authorities:
- the equitable effort of local authorities to satisfy the European budgetary requirements and the way in which they are adopted;
- the governance instruments of the local authorities' EMU balance: administrative consultation culminating in a sanctioning mechanism if the local authorities exceed the reference values;
- reliable information to supervise and monitor the local authorities' finances.[77]

One of the main elements of the HOF Act is the role of local authorities in achieving the budgetary objectives: they and the RWTs designated by the Minister must make 'equitable efforts' to comply with the European reference values. What qualifies as an 'equitable effort' is decided by administrative consultation between the Ministers of Finance and of the Interior and Kingdom Relations (the administrators of the Municipalities Fund and the Provinces Fund) and organisations representing the provinces and municipalities. If necessary, the Minister of Infrastructure and the Environment and representatives of the water authorities can also take part in the consultation.

On a proposal from the Minister of Finance following administrative consultation, the Minister of the Interior and Kingdom Relations can impose a financial sanction on the local authorities if the local authorities' collective share of the deficit exceeds the budgetary reference values. The sanction may be in the form of a cut in disbursements from the Municipalities Fund or the Provinces Fund (interest-free deposit) for up to three years. The Minister of Infrastructure and the Environment can impose a fine on *individual* water authorities in similar circumstances. The water authorities are held individually responsible for exceeding the macro reference value for the EMU balance of the water authorities as a whole. The Minister of Finance, finally, can impose a fine on RWTs.

If the EU fines the Netherlands for exceeding the budgetary reference values, after consultation the ministers concerned can decide to charge the fine in whole or in part to a province, municipality or water authority if local authorities are in some way responsible.

The Minister of Finance has found that the quality of the information on the local authorities' finances is open to improvement.[78] We confirmed this finding in a letter to the Senate of 28 November 2013 (Netherlands Court of Audit, 2013b). In it, we observed that the reporting rules for the three government sectors in the Netherlands differed and were not consistent with the European System of Accounts (ESA) and it was accordingly difficult to obtain mutually comparable information. For this reason, it is still difficult for consolidated information to provide the Netherlands with greater assurance. The information necessary to calculate the EMU figures are presented in 'information from third party' statements prepared by the local authorities but the

77 Act on sustainable finances of the collective sector (Sustainable Public Finances Act), Explanatory Memorandum, House of Representatives, session 2012-2013, 33 416, no. 3.
78 Act on sustainable finances of the collective sector (Sustainable Public Finances Act), Memo further to the report, House of Representatives, session 2012-2013, 33 416, no. 8.

statements are not audited. The local authorities' annual accounts are audited and an audit opinion is expressed on them.

4.4 Role of parliament

Protocol No. 1 to the Treaty on European Union (TEU) protects the position of national parliaments and their part in European economic governance. National parliaments are also named specifically in the Six Pack,[79] and permanent dialogue between the EU and the member states is a necessary condition for the successful enforcement of budgetary discipline.[80] In macroeconomic policy, the Council and the European Commission must respect, among other things, the role of national parliaments.[81]

The Two Pack specifically states 'The parliament of a member state subject to a macroeconomic adjustment programme or to enhanced surveillance should be kept informed in accordance with national rules and practice'.[82] A provision is also included that the European Parliament and the national parliament may invite the Commission, the ECB and the IMF to participate in an economic dialogue.[83]

Three recent developments in the Dutch parliament show the increased relevance of European economic governance:

1. the Senate and the House of Representatives have gained permanent access to the Council's Limité documents and to the draft Council conclusions, which has strengthened their information position;[84]
2. the House of Representatives has had a rapporteur for the European Semester since 2012;
3. since 2013 two interparliamentary meetings have been organised in Brussels for the European Parliament and national parliaments. They have been attended by members of the Senate and of the House of Representatives.

79 Regulation 1173/2011 consideration no. 11, Regulation 1176/2011 consideration no. 5.

80 Regulation 1466/97 Art. 11 (1), Regulation 1467/97 Art. 10-a (1), Regulation 1173/2011 consideration no. 8.

81 Regulation 1176/2011, consideration no. 25. The Commission emphasises that the member states themselves are responsible for how local authorities, social partners and other relevant parties participate in the European Semester.

82 Regulation 472/2013, consideration no. 10.

83 Regulation 472/2013, Art. 3(9).

84 Minister of Foreign Affairs, Letter to the House of Representatives on access of the Senate and House of Representatives to internal Council documents, 18 January 2013. Limité documents are confidential Council documents.

5 Findings, points of interest and government response

5.1 Findings

We drew the following findings from our study.

1. EU rules on the surveillance of the member states' budgetary policies were not applied in full or consistently between 1997 and 2012. A country was given notice to take measures on only some occasions and financial sanctions were never imposed.
2. The measures taken since 2010 to strengthen the member states' budgetary and macroeconomic policies in the face of the financial and economic crisis have produced a complex body of laws and rules. It is not always directly clear whether they apply to 28 member states, 25 member states, 23 member states or the 18 countries of the euro area. The complexity of European economic governance makes it harder for the European institutions to enforce this body of rules and agreements.
3. More opportunities have arisen for the EU to supervise and hold the member states accountable for their budgetary and macroeconomic policies but the EU's de facto ability to change anything in the member states' policies is limited. In particular, the corrective measures in the budgetary surveillance framework are not legally enforceable. The European Court of Justice is not competent to render judgement in this area and formally the Council (i.e. the member states themselves) always has the final word, although the Commission's powers have increased slightly. A decision on whether or not a member state has exceeded the budgetary reference values is not a judicial but a political decision taken by the Council acting on a recommendation from the Commission. A member state cannot appeal against the decision at the ECJ.
4. To date, the functioning of the new macroeconomic imbalances procedure has been limited to the detection and prevention phases. It is not entirely clear in the MIP how the Commission decides there is an imbalance. This is not the case in the EDP. As the Commission has discretionary powers, how it weighs the nature and seriousness of an imbalance is not completely transparent.
5. It is not directly clear which country specific recommendations made in the European Semester relate to which obligations or agreements and whether an obligation or agreement arises from the SGP, the MIP or the Europe 2020 strategy. It is thus not directly clear whether an agreement is binding or 'soft'. In theory, a member state can ignore a soft agreement.
6. Countries such as the Netherlands, where the budget is under exceptional pressure from the crisis and austerity measures are necessary, are debating the following year's budget earlier and in more detail than in the past. Two formal changes have been made: the medium-term objective has been tightened up and it has been anchored in the Sustainable Public Finances Act (formal law). Furthermore, both the Senate and the House of Representatives must in future adopt the national budget in principle before the end of the year (although exceptions are possible). In other respects, the new rules of European economic governance since 2010 entail little substantive change for the Netherlands in comparison with the situation following the introduction of the SGP in 1997.

7. The customary good governance arrangements of democratic control and accountability in place for the EU 28 do not apply equally to the Eurogroup or its President. Yet the influence of the euro 18 - i.e. the Ecofin Council in euro configuration and the informal Eurogroup - has increased, including in the decision-making process.
8. The member states' accountability to the European institutions is still being developed. A lot of attention has been paid to strengthening the quality of the statistical data used in the EMU accounts. Furthermore, the European Commission has launched a debate on harmonising national reporting systems, strengthening accountability and improving the underlying comparability of the member states' performance in the field of budgetary policy.

5.2 Points of interest

As noted in the foreword to this study, European economic governance should be understood to be a compromise between the interests of national budgetary autonomy on the one hand and the perceived need to coordinate and supervise macroeconomic and budget policies at European level on the other. This compromise is due in part to the loss of confidence in the European economy in recent years. The challenge facing the European institutions is to make European economic governance more transparent and effective in the years ahead. Furthermore, democratic accountability must be clarified, particularly with regard to the application of the rules of European economic governance.

The findings presented in this study prompted us to make the following comments.

1. The past decade gives no immediate cause for optimism regarding the EU's willingness to enforce agreements. We repeatedly found that the member states did not consistently comply with the budget reference values set in the years before the 2008 financial crisis unless the European institutions made a last-minute move to enforce them and impose financial sanctions for non-compliance. This undermines the credibility and effectiveness of European economic governance. It goes without saying that European economic governance must have clear and straightforward procedures and the member states must keep comprehensive and stable accounts in compliance with the agreements.
2. The ultimate goal of strengthening European economic governance is to regain and secure the confidence of the financial markets, the public and business in the functioning and performance of the European economy, especially that of the euro area. The extensive body of rules, agreements and procedures and the renewed relationships between the member states and the European institutions does not by itself offer the prospect of the intended recovery in confidence. The need for greater transparency and simplification of European economic governance is growing more pressing, particularly to create conditions to make enforcement more effective. The government and parliament should insist on more consistency in European economic governance, eliminate overlaps and simplify the procedures where possible.
3. A number of steps could be taken to increase transparency in the near term. In the MIP, the European Commission's scoreboard clarifies the relationship between the member states' efforts to improve their macroeconomic performance. Transparency would be enhanced if a comprehensive statement were prepared not only of the state of the MIP but also of the various elements of the SCP (MTO/EDP)

and the member states' implementation of the country specific recommendations. The European Commission should also clarify how it uses its discretionary powers in the MIP and what considerations it makes when deciding that a member state has not or has an excessive imbalance. For the benefit of the member states and the reliability of information provided to parliament, finally, the Commission should clarify what elements of European economic governance underpin the analysis and individual country specific recommendations so that the member state being addressed understands the importance of the recommendation and to what extent implementation is obligatory.

4. European economic governance is increasingly raising the importance of sustainable public finances in the long term. The structural balance (and its standardisation) has gained a more prominent place in European economic governance. The debate launched by the European Commission on the harmonisation of reporting rules in the EU is very relevant to this. It offers greater opportunity for a more comprehensive review of the sustainability of public finances than at present. More governmental attention should be paid to this.
5. Further to the previous comment, the quality of the reported budgetary data must be guaranteed. The member states use statistical data to account for their deficit and debt positions. To varying degrees, the statistical offices of the member states and the Commission use externally audited accounting information. For the purposes of European economic governance, the European institutions are seeking to improve the quality of the member states' accounts. It is not sufficiently clear, however, whether and to what extent more reliance will have to be placed on externally audited information in the future. More attention should also be paid to this matter.
6. Specifically with regard to the Netherlands as a member state, attention should be paid to improving the quality of the financial information used to prepare the Dutch EMU data.
7. Finally, attention should be paid to the governance of the Eurogroup and in particular to its democratic control and accountability. It is particularly important that the person of the President is not democratically embedded in the European institutions. This must be borne in mind if it is decided to appoint a permanent President, in view of the actual tasks and position of the Eurogroup and its President within the architecture of European economic governance.

5.3 Government response

On behalf of the government, the Ministers of Finance and Economic Affairs responded jointly to our report. A summary of their response and our afterword are presented below. The full response is available in Dutch on our website at www.courtofaudit.nl.

Response of the Ministers of Finance and of Economic Affairs on behalf of the government

Comments 1 to 3: compliance, consistency and transparency in the European Semester
The government agrees with the Netherlands Court of Audit that the willingness to enforce EU agreements in the area of European economic governance is not an immediate source of optimism (comment 1). The proposals made to avoid this situation, such as the Six Pack, Two Pack and Fiscal Compact, have strengthened the European rules on budgetary and macroeconomic policies and therefore, in the

government's opinion, have helped restore confidence. The government notes that the study concentrated on the period 1997-2012. In its opinion this period is inappropriate to express a comprehensive opinion on the more recent implementation of and compliance with the strengthened structure. The government shares our observation that the EU framework of budgetary and economic policies coordination is very complex (comment 2). The government agrees with our general finding that the various procedures and rules could be, where possible, further simplified.

The government then responded to our three proposals to increase the transparency of various aspects of the European Semester (comment 3). Regarding the first point - prepare a comprehensive and transparent statement of the status of the various parts of the SGP and the implementation of country specific recommendations - the government agrees with the importance of having transparent procedures. The government is seeking to increase and strengthen the focus on implementation. Monitoring the member states' compliance with the country specific recommendations should, in the government's opinion, be a permanent part of the European Semester.

Regarding our second point - that the Commission should clarify how it uses its discretionary powers in the macroeconomic imbalance procedure (MIP) and what considerations it makes to arrive at its decisions - the government shares our opinion that the Commission could better explain its considerations in the various steps of the MIP. Regarding our third point - that there should be a clearer relationship between individual country specific recommendations and the procedures from which the recommendations arise - the government supports the aim of clarifying the requirements made on the member states in general. It has doubts, however, about how this can be achieved in practice.

Comments 4 to 6: quality of data on public finances

In comment 4 we ask for more attention to be paid to the harmonisation of reporting rules, in part with a view to enabling a more comprehensive review of the sustainability of public finances. The government thinks the goal of straightforward European reporting rules (EPSAS) in the public sector is worth pursuing. The government wonders whether integral implementation of EPSAS would be the most appropriate answer as regards costs and benefits, proportionality and subsidiarity.

The government believes the importance of reliable figures for budgetary policy coordination in the EU is self-evident (comment 5). Securing the quality and reliability of the EMU figures, moreover, has the government's constant attention (comment 6). Action is being taken at EU level. A joint study by a working group of the Ministry of Finance, Statistics Netherlands and the Netherlands Court of Audit in 2012/2013, however, found that the Dutch EMU figures were of high quality and the government accordingly sees no direct reason for far-reaching action to improve the quality of the Netherlands' figures. A seven-point plan is being implemented.

Comment 7: democratic control and accountability

In the seventh comment we state that attention should be paid to the governance, and in particular democratic control and accountability, of the Eurogroup. The government thinks the existing procedure provides a structured flow of information that the Dutch Minister of Finance uses to account for both the Eurogroup and the Ecofin Council and that guarantees democratic control and transparency for the Netherlands. In the government's opinion it is therefore open to question whether further arrangements at EU level, such as having the Eurogroup President render account to the European Parliament, would strengthen control and accountability.

Furthermore, the government notes that the comply or explain principle, with the Council preparing a statement if it amends a Commission recommendation, does not apply to the EU 18 because the Eurogroup is an informal body and formal decisions are taken by the Ecofin Council. The President of the Eurogroup, according to the government, participates at least twice a year in the economic dialogue with the European Parliament. Finally, the government notes that the temporary or permanent appointment of a President of the Eurogroup would not change the informal character of the Eurogroup.

Netherlands Court of Audit's afterword

We thank the government for its response. We will keep a close eye on the follow-up to our comments in the coming period. The government could show its intentions when it decides its position on the evaluation and revision of the Six Pack in autumn 2014 and at other moments when the implementation and effectiveness of the European Semester comes up for discussion. The democratic control and accountability of the Eurogroup, as the government correctly notes, are informal in nature but in our opinion deserve more attention at EU level than the government is currently calling for. The informal nature of the Eurogroup is at odds with its influence on the main elements of European economic governance. Its actions also affect the European emergency measures, which the euro countries have guaranteed for many billions of euros. Furthermore, the discussion goes to the heart of parliament's right to approve the budget. Good arrangements for control and accountability on this matter are essential at EU level and underpin public confidence in the EU and within it the euro area. The soundness of control and accountability at EU level and the resultant ability to render account in the member states are two sides of the same coin. Full attention should be paid to the right of parliament (in this case the Dutch parliament) to approve the budget.

Annexe I Functioning of MIP, Europe 2020 and country specific recommendations

Table B1 Number of member states that exceed the thresholds of the indicators on the MIP scoreboard in the 2012, 2013 and 2014 European Semesters.*

	External imbalances and competitiveness					Internal imbalances						
Year of European Semester	Net current account as % of GDP (three-year average)	Net international investment position as % of GDP	Real effective exchange rates with HIPC deflators, %change (three years)	Export market shares, % change (five years)	Export market share, % change (five years)	Deflated house prices, % change (year on year)	Private sector credit flow, as % of GDP	General government debt, as % of GDP#	Private sector debt, as % of GDP#	Unemployment (three year average)	Financial sector liabilities	Total
Euro-member states												
2012 (27 MS)	7	8	2	12	5	1	1	11	12	5	n/a	64
2013 (27 MS)	7	8	1	14	2	0	1	11	12	6	1	63
2014 (28 MS)**	6	8	9	14	1	0	0	11	12	6	0	67
Non-euro member states												
Total												
2012 (27 MS)	4 (11)**	7 (15)	2 (4)	3 (15)	3 (8)	1 (2)	0 (1)	4 (15)	2 (14)	2 (7)	n/a (n/a)	28 (92)
2013 (27 MS)	3 (10)	7 (15)	0 (1)	3 (17)	1 (4)	0 (0)	0 (1)	4 (15)	2 (14)	3 (9)	0 (1)	24 (87)
2014 (28 MS)***	3 (9)	8 (16)	0 (8)	5 (19)	0 (1)	0 (0)	0 (0)	3 (14)	2 (14)	5 (11)	0 (0)	26 (93)

*Member states subject to a macroeconomic adjustment programme under which they receive financial support are not subject to the MIP. These member states are subject to enhanced surveillance and its corrective measures.[85] This approach avoids the problem of duplication of procedures and reporting obligations, The member states concerned are the euro countries Greece, Ireland and Portugal and the non-euro country Romania as from the first MIP cycle in 2010. These member states are still implementing a wide range of reforms under economic adjustment programmes. Euro area member state Cyprus received financial support in the course of 2013 and the MIP and in-depth review for this country were suspended. In accordance with the regulations, Cyprus has been implementing a specific adjustment programme to reform its economy since it received emergency support.[86] The balance of payments support programme for Latvia was closed on 19 January 2012 but Latvia remains subject to post-programme surveillance. Latvia was subject to the screening review under the 2011 AMR (under European Semester 2012).

The sustainability of public finances is not reviewed under the MIP because this already happens in the framework of the SGP. Nevertheless this indicator is part of the scoreboard because government debt contributes to the total national debt and thus influences the general vulnerability of a country.

** Figures between brackets are the sum of the scores of euro member states and non-euro member states.

*** Croatia became the 28th member state on 1 July 2013.

85 This approach to avoid the duplication of procedures is laid down in Two Pack Regulation (EU) No. 472/2013 of 21 May 2013.

86 An in-depth review of Cyprus was published in accordance with the political agreement reached between the Eurogroup and the Cypriot authorities on the macroeconomic adjustment programme and official financing.

Table B2 Europe 2020 strategy goals for the Netherlands[87]

EU goals	NL NRP 2010 goals	NL NRP 2011 goals	NL 2012 goals	NL 2013 goals
1. Labour market				
Increase gross labour participation (20 to 64-year-olds) from 69% to 70% by 2020	Increase labour participation and ensure that everyone participates where possible and capable.	Increase gross labour participation to 80% by 2020 and ensure that everyone participates where possible and capable.	The same as the 2011 national NRP goal.	The same as the 2011 national NRP goal.
2. Research and development				
Increase R&D expenditure from 1.9% to 3% of EU GDP by 2020.	Rank among the top five knowledge economies.	Increase R&D expenditure to 2.5% of NL GDP by 2020.	The same as the 2011 national NRP goal.	The same as the 2011 national NRP goal.
3. Energy, climate and mobility				
20% CO_2 emission reduction by 2020 relative to 1990.	Same as the EU goal.	Same as the EU goal.	Same as the EU goal.	Same as the EU goal.
20% from sustainable energy sources by 2020.	14% from sustainable energy sources by 2020.	14% renewable energy as a percentage of consumption 2020.	The same as the 2011 national NRP goal.	16%
20% more energy efficiency by 2020.	No goal set in first Rutte Coalition Agreement.	Increase energy efficiency; no quantitative goal.	The same as the 2011 national NRP goal.	1.5% per annum.[88]
4. Education				
Reduce number of early school leavers to less than 10% by 2020.	Reduce number of early school leavers to 25,000.	Maximum 8% of 18 to 24-year-olds without basic qualifications by 2020.	The same as the 2011 national NRP goal.	The same as the 2011 national NRP goal.
Increase the number of 30 to 34-year-olds with tertiary education to at least 40% by 2020.	No goal set in first Rutte Coalition Agreement.	Further improvement in quality of education. Expectation: 45% of 30 to 34-year-olds have tertiary education by 2020.	The same as the 2011 national NRP goal.	The same as the 2011 national NRP goal.
5. Social\e inclusion				
Reduce the number of people (0 to 59-year-olds) that are poor or excluded by at least 20 million by 2020.	- Ensure that everyone participates where possible and capable. - No poverty goal in first Rutte Coalition Agreement.	Reduce number of people (0 to 64-year-olds) in a jobless household by 100,000 by 2020.	The same as the 2011 national NRP goal.	The same as the 2011 national NRP goal.

87 This is a summary of the goals and targets. For readability purposes, the explanatory notes in the NRPS (especially the 2011 and 2012 NRPS) are not included in the table.
88 In accordance with the European energy efficiency directive 2012/27/EU.

Table B3 Policy fields and implementation status of country specific recommendations 2012

Field	Subcategory	Number	Implementation per element			
			Not	Promised	Partially	Fully
1	1.1 Active labour market	20	2	7	6	5
	1.2 Labour market structure	15	2	3	7	3
	1.3 Labour productivity	5	1	-	3	1
	1.4 Discrimination	10	-	4	3	3
	1.5 Youth unemployment	16	-	5	7	4
	1.6 Older employees	14	2	1	4	7
	1.7 Public labour mediation	8	-	-	6	2
	1.8 Unit labour cost	5	2	1	1	1
	1.9 Unemployment	1	-	-	-	1
	Total 1 Labour market policy	94	9	21	37	27
	Total 1 as %	100%	9.6%	22.3%	39.4%	28.7%
2	2.1 Banking sector	12	1	1	4	6
	2.2 Financial sector	1	-	1	-	-
	2.3 Housing market	9	1	2	2	4
	2.4 Loans	2	-	-	1	1
	Total 2 Financial markets	24	2	4	7	11
	Total 2 as %	100%	8.3%	16.7%	29.2%	45.8%
3	3.1 Tax system	27	5	8	7	7
	3.2 Excessive deficit	17	1	4	5	7
	3.3 Consolidation	5	2	1	1	1
	3.4 Local authorities	10	2	3	2	3
	3.5 Fiscal Council	4	1	-	-	3
	3.6 Fiscal rules	9	1	4	-	4
	3.7 Medium-term objective	16	3	5	2	6
	3.8 Pensions	25	4	3	7	11
	3.9 Public expenditure	13	3	2	5	3
	3.10 Reporting and control	2	1	-	-	1
	3.11 National debt	5	1	2	1	1
	Total 3 Fiscal policy	133	24	32	30	47
	Total 3 as %	100%	18.0%	24.1%	22.6%	35.3%
4	4.1 Energy	15	-	4	7	4
	4.2 EU Funds	2	-	-	1	1
	4.3 Innovation and research	15	1	5	6	3
	4.4 Internal market, services	9	-	3	6	-
	4.5 Internal market, indust. policy	2	-	1	1	-
	4.6 Internal market, competition	24	5	4	8	7
	4.7 Enterprise	4	-	-	2	2
	4.8 Publ. admin. capacity/reform	14	1	3	5	5
	4.9 Access to finance	1	-	1	-	-
	Total 4 Market policy	86	7	21	36	22
	Total 4 as %	100%	8.1%	24.1%	41.9%	25.6%
5	5.1 CO2 emissions	2	-	-	1	1
	5.2 Green technology	4	-	1	2	1
	Total 5 Environment	6	0	1	3	2
	Total 5 as %	100%	0%	16.6%	50%	33.3%

6	6.1 Poverty	7	-	2	2	3
	6.2 Health care	3	1	-	2	-
	6.3 Tertiary education	9	-	6	2	1
	6.4 Preschool education	2	-	2	-	-
	6.5 Secondary education	18	1	6	7	4
	Total 6 Social policy	39	2	16	13	8
	Total 6 as %	100%	5.2%	41.0%	33.3%	20.5%
Total		382	44	95	126	117
Total as %		100%	11.5%	24.9%	33.0%	30.6%

Annexe 2 Abbreviations

AMR	Alert Mechanism Report
BEPG	Broad Economic Policy Guidelines
CBS	Statistics Netherlands
Council	Council of Ministers or Council of the European Union
CPB	Netherlands Bureau for Economic Policy Analysis
CR	Committee of the Regions
EC	European Commission
ECJ	European Court of Justice
Ecofin Council	Economic and Financial Affairs Council configuration
EDP	Excessive deficit procedure
EEG	European economic governance
EMU	Economic and Monetary Union
EP	European Parliament
EPSAS	European Public Sector Accounting Standards
Epsco Council	Employment, Social Policy, Health and Consumer Affairs Council configuration
ES	European Semester
ESA	European System of Accounts
ESC	Economic and Social Committee
ESCB	European System of Central Banks
ESS	European Statistical System
EU	European Union
GDP	Gross domestic product
HOF	Sustainable Public Finances Act
IPSAS	International Public Sector Accounting Standards
MAP	Macroeconomic adjustment programme
MIP	Macroeconomic imbalance procedure
MTO	Medium-term objective
NRP	National reform programme
OCM	Open Coordination Method
QMV	Qualified majority voting
RCE	Regional Competitiveness and Employment Regions
RWT	Legal person with statutory tasks
SCP	Stability and convergence programme
SGP	Stability and Growth Pact
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

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Cover Design and Photo

Corps Ontwerpers, The Hague

The Hague, December 2014