

Evaluation of DG ECFIN fiscal surveillance activities

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Final report

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Preface

This report has been prepared by a team of ECORYS Netherlands in collaboration with the University of Amsterdam under the existing COWI Service Framework Contract with DG BUDGET covering Ex Post and Mid Term Evaluations (Ref. BUDG06/PO/01/Lot N°3, ABAC101911) and in response to the Terms of Reference concerning the Evaluation of DG ECFIN fiscal surveillance activities (specific contract No ECFIN/R/3/2008/034).

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Responsibility for the opinions and views presented in this final report rests exclusively with the authors and should not be attributed to the European Commission.

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List of abbreviations

ABB	Activity Based Budget
DG	Directorate General
DG BUDG	Directorate General Budget
DG ECFIN	Directorate General for Economic and Financial Affairs
EC	European Commission
Ecofin	Economic and Financial Affairs Council
EDP	Excessive Deficit Procedure
EDRC	Economic Development and Review Committee
EERP	European Economic Recovery Plan
EFC	Economic and Financial Committee
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
EU	European Union
GDP	Gross Domestic Product
ICS	Inter-Service Consultation
IMF	International Monetary Fund
IR	Implementation Report
MFA	Macro-Fiscal Assessments
MS	Member State
MTO	Medium-Term Objective
NRP	National Reform Programme
OECD	Organisation for Economic Cooperation and Development
PFR	Public Finance Report
PIN	Public Information Notice
PRD	Strategy, Policy and Review Department
SCP	Stability and Convergence Programme
SGP	Stability and Growth Pact
UK	United Kingdom
VAT	Value Added Tax

Executive Summary

This evaluation report has been prepared by a team of ECORYS Netherlands in collaboration with the University of Amsterdam.

The overall evaluation question can be formulated as: “*How does DG ECFIN do its activities in the area of budgetary surveillance, given the rules set in 2005 with the reform of the Stability and Growth Pact*”. The overall evaluation question is further divided in five main evaluation questions, addressing aspects of timeliness, efficiency, soundness, relevance and external communication (see Table 0.1).

Table 0.1 Main evaluation questions

	Aspect	Evaluation questions
1	Timeliness and cross-country consistency	To what extent do the budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness and cross country consistency?
2	Efficiency	To what extent are resources used efficiently in budgetary surveillance?
3	Soundness	Are the outputs based on sound analysis and to what extent has the progressive broadening of the scope of budgetary surveillance contributed to improving the quality (soundness) of budgetary surveillance?
4	Relevance	Are the content and quality of the outputs relevant to be used as inputs for national policy debates?
5	External communication	What are the strengths and weaknesses of the current communication practice of the budgetary surveillance activities?

The evaluation covers the period 2005 to 2009. Four so-called vintages have been analysed (2005-06, 2006-07, 2007-08 and 2008-09).

The analyses related to the evaluation questions concerning timeliness and relevance covers mostly all Member States. For the assessment of soundness a *representative* sample of countries was used (for the preventive arm of the SGP - France, Hungary, Italy, the Netherlands and the UK; for the corrective arm – Italy, UK and Portugal).

This study contains the findings, conclusions and recommendations of the evaluation of DG ECFIN fiscal surveillance activities. The main conclusions are as follows.

Conclusions - Timeliness

The main conclusion is that budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness. Also, DG ECFIN does not

structurally differentiate between countries with respect to timeliness under both the preventive and corrective arms of the SGP.

Conclusions - Efficiency

Based on the analysis the evaluation concludes that there is no evidence that resources are being used inefficiently in the budgetary surveillance. The lack of human resources is not anymore seen as a serious problem. Over time the shortages have been fulfilled. The main concerns relate to the high turnover of staff and the perceived high workload for particularly new staff. To some extent there is limited flexibility in using staff from one country desk to another country desk. Especially between units there is hardly any flexibility in the use of staff. Some interviewees consider that for new staff more training options are needed in order to become better prepared for their new posts. The evaluation also concludes that budgetary surveillance is receiving the necessary support from units within DG ECFIN. The support provided by the units F4 and C2 is highly appreciated.

Conclusions – Quality

The analysis of the quality covers the preventive arm, the corrective arm, the Public Finance Report – Evolving budgetary surveillance (Part II), and the Sustainability report

- **Preventive arm**

With regard to the structure and contents of macro fiscal assessment, the study concludes that the content of the MFAs is very similar across countries, but differs across vintages. Starting with the vintage 2006/07 some modifications have been introduced, especially by the inclusion of a section on the common scene setter. In the following vintages the section on scene setters has evolved further.

The evaluation concludes that the structure and content of the analysis contained in the MFAs is consistent with the fiscal surveillance aspects contained in the legal framework. Furthermore, on the whole the quality of the analysis is high. The coverage is broad and comprehensive, building up from an assessment of the overall outlook, followed by an analysis of the government's balance, debt and long-run sustainability with a view towards the rising ageing costs. The analysis emphasises the role of structural reforms and individual countries' institutional adjustments towards enhancing fiscal discipline.

Over time, progress has been made through a gradually richer and more nuanced analysis of macro and fiscal developments, among other by a year-by-year evolution of specific scene setters. The progressive broadening of SCP assessments has led to an even higher quality of the analysis produced in these documents. For instance, the topical scene setters of the last two rounds show a clear understanding from the Commission of the role of country-specific features for a more balanced assessment of the SCP updates.

- **Corrective arm**

With regard to the soundness of the EDPs reports, opinions and recommendations of the Commission the study concludes that in terms of structure/content, the Commission operated fully consistent with the legal framework. Furthermore, on the whole the analysis in the EDP outputs over the entire EDP trajectories appears to be of high quality and adequate in its coverage. The more technical parts of the analysis generally take into

account all relevant factors in a well-balanced way, while conclusions are drawn in a consistent way.

- **The Public Finance Report – Evolving budgetary surveillance (Part II)**

With regard to the relevant chapter in the Public Finance Report, the evaluation concludes that the scope of fiscal surveillance has widened substantially in recent years. Moreover, budgetary surveillance has gradually shifted attention more towards the preventive arm of the Pact and the quality of public finances which is seen as a favourable development.

- **The Sustainability Report**

With regard to the Sustainability Report (2006) the evaluation concludes that the analysis by means of sustainability gap indicators is useful to measure the extra overall effort needed to make the budget sustainable. The indicator allows making explicit the cost of postponing budgetary adjustment. The sensitivity exercises cover major factors determining the sustainability gap indicator.

Conclusions - Relevance

With regard to relevance of the outputs to be used as inputs for national policy debates the evaluation concludes that the Commission's (including DG ECFIN's) outputs seems to be of secondary importance as the public debate in Member States typically has a focus on national budgetary processes and documents. However, a large share of the impact on national policy debates goes through processes *below the surface* that are less clear to the public, notably:

- via interdepartmental negotiations between Ministries of Finance and line ministries, and
- via methodological work of the Commission influencing understanding at the national level.

Through these 'below the surface processes' the Commission's work affects national budgetary processes and documents, and hence the public debate. An Excessive Deficit Procedure increases the attention for the Commission's work in the national public debate.

Conclusions - External communication

The evaluation concludes that on a whole, the current communication practice of the budgetary surveillance activities is considered to be good. Especially, after recent changes were made in December 2009 the website has improved considerably.

While the layout of the ECFIN website before its revision had the '*look and feel*' of an older version of the layout of the European Commission website (5 December 2009), the improvement of the website of 22 December gave the DG ECFIN website a modern and 'cared for' look and feel. The very strong point of the website is the collection of all relevant documents by country and procedure. The news part is supposed to be the part where timeliness is most important. News on the DG ECFIN site is timely in the sense that it is made available as soon as cleared for online publication. The DG ECFIN website is easy to find with the help of search engines. The new website is easy to navigate and documents easy to find.

The evaluation contains key recommendations on how in the future the budgetary surveillance activities could be strengthened even more. The recommendations relate especially to quality and efficiency and relevance & external communication (taken together) and are based on the analysis including where relevant benchmarking with surveillance processes and outputs of the IMF and the OECD. The table below lists the main recommendations.

Table 0.2 Overview of main recommendations

Area	Recommendations
Efficiency	Strengthen the conditions for new staff who start to work at the country desks.
	Address the high turnover of staff at the country desks.
	Consider to establish / work more with country teams.
	Streamline the calendars of the different outputs
Quality	Include assessments of vulnerability in the future macro fiscal assessments.
	Include an extended assessment of the sources of the deviations from budgetary plans based on all data available from the previous updates and on a comparison with the (past) performance of the other Member States.
	Include a more in-depth analysis of the structure and riskiness of the gross public debt in terms of maturity (fixed versus floating rate obligations), structure and share of assets in percent of total liabilities, foreign currency denomination of assets and liabilities in percent of total liabilities.
	Include a more in-depth analysis of the risks associated with contingent liabilities.
	Examine further the inclusion of more in-depth analysis of more country-specific features of the budget of the Member States.
	Given the current economic and financial crisis, continue to examine what frameworks or budgetary rules would be most suitable to withstand large negative shocks based upon best practices on frameworks and budgetary rules.
	Consider in future reports to attach likelihoods attached to various alternative scenarios.
	Consider to address in future sustainability reports issues related to intergenerational equity.
	Examine in future work on sustainability issues related to investment in human capital during working life and changes in the wage structure.
	Examine in the role of idiosyncratic factors for the sustainability of individual countries.
Relevance & external communication	Include systematically specific reference to previous recommendations and invitations in the DG EFIN's assessments of the SCPs.
	Consider to make public the macro-fiscal assessments at the same time as the press release concerning Commission recommendations for a Council opinion.

1 Introduction

1.1 Objective of the evaluation

The formal reason for conducting this evaluation is the Commission’s legal obligation to evaluate its activities every six years. Furthermore, the objective for this evaluation is primarily to “support learning and understanding, leading, where demonstrated as being necessary while compatible with the Treaty and the applicable secondary legislation, to changes to the budgetary surveillance activities of the DG and their resulting outputs, with consequent benefits for the various counterparts and other users.”

The overall evaluation question can be formulated as: “*How does DG ECFIN do its activities in the area of budgetary surveillance, given the rules set in 2005 with the reform of the Stability and Growth Pact*”.

1.2 Evaluation questions

The overall evaluation question is further divided in five main evaluation questions, addressing aspects of timeliness, efficiency, soundness, relevance and external communication (see Table 1.1).

Table 1.1 Main evaluation questions

	Aspect	Evaluation questions
1	Timeliness and cross-country consistency	To what extent do the budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness and cross country consistency?
2	Efficiency	To what extent are resources used efficiently in budgetary surveillance?
3	Soundness	Are the outputs based on sound analysis and to what extent has the progressive broadening of the scope of budgetary surveillance contributed to improving the quality (soundness) of budgetary surveillance?
4	Relevance	Are the content and quality of the outputs relevant to be used as inputs for national policy debates?
5	External communication	What are the strengths and weaknesses of the current communication practice of the budgetary surveillance activities?

The main evaluation instruments that have been used are:

1. Desk research;

2. Structured interviews with staff of the EC, and in particular of DG ECFIN;
3. Structured interviews with staff of the Ministries of Finance of the Member States.
4. Where relevant benchmarking with budgetary surveillance practices of the IMF and the OECD;
5. Online questionnaire among academics, politicians, civil servants and journalists in the Member States which are included in the mailing list of DG ECFIN to address especially the evaluation questions concerning relevance and external communication.

The evaluation covers the period 2005 to 2009. Four so-called vintages have been analysed (2005-06, 2006-07, 2007-08 and 2008-09).

The analyses related to the evaluation questions concerning timeliness and relevance covers mostly all Member States. For the assessment of soundness a representative sample of countries was used. The analysis of the preventive arm of the SGP focussed on five countries: France, Hungary, Italy, the Netherlands and the UK. With regard to the corrective arm of the SGP only the EDPs that started and were completed during the period under surveillance for the same country sample were analysed (Italy and the UK) as well as the EDP for Portugal. The country sample was selected as to accommodate the various possible splits of the entire group of Member States: euro group versus non-euro group, countries under close scrutiny (subject to an EDP) versus those not subject to close scrutiny, large versus small countries, and new Member States versus old Member States.

It is noted that with the entry into force of the Lisbon Treaty, this report uses the old numbering of Treaty articles.

1.3 Structure of this report

This document is organised according to the five evaluation questions.

Chapter 2 touches upon timeliness. Chapter 3 examines operational efficiency. Chapter 4 analyses the quality of the outputs of DG ECFIN. Chapter 5 assesses the relevance of DG ECFIN activities and outputs and Chapter 6 looks at the perspective of external communication.

Finally Chapter 7 summarises the conclusions and presents our recommendations.

2 Timeliness

2.1 Introduction

This chapter analyses the first question which has been addressed in this evaluation:

“To what extent do the budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness and cross country consistency?”

In order to address the question on timeliness and cross-country consistency, the following sub-questions are answered:

1. What are the outputs that DG ECFIN is legally required to produce?
2. What does the legal and institutional mandate specify with respect to timeliness?
3. Are these outputs published / distributed in a timely fashion?
4. Are the outputs consistent across countries with respect to timeliness?

For each question we specify, where applicable, the information sources we have relied upon and the research methods that were applied.

2.2 Outputs¹

The main outputs of DG ECFIN in relation to fiscal surveillance with respect to the *preventive arm* are the following:

- Commission recommendations for Council opinions on (updated) Stability and Convergence Programmes (SCPs) accompanied by more detailed "Macro-Fiscal Assessments" (MFAs) under the responsibility of DG ECFIN;
- Commission recommendation for a Council recommendation with a view to giving early warning in order to prevent the occurrence of an excessive deficit;
- Commission policy advice on the economic and budgetary policy.

The main outputs of DG ECFIN in relation to fiscal surveillance with respect to the *corrective arm* are the following²³:

- Commission report prepared in accordance with Article 104(3) of the Treaty;

¹ With the entry into force of the Lisbon Treaty, it should be noted that this report (e.g. in the above list), uses the old numbering of Treaty articles. In particular, old Article 99 has become Article 121, old Article 104 has become Article 126 and old Article 211 no longer exists.

² Source: http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/fiscal_policy1075_en.htm

³ Source: <http://europa.eu/eur-lex/en/treaties/selected/livre223.html#anArt6>

- Commission opinion on the existence of an excessive deficit prepared in accordance with Article 104(5) of the Treaty;
- Commission recommendation for a Council decision on the existence of an excessive deficit prepared in accordance with Article 104(6) of the Treaty;
- Commission recommendation for a Council recommendation to the Member State with the view of bringing the situation of excessive deficit to an end in accordance with Article 104(7) of the Treaty; *followed by one of the following three documents:*
 - Commission recommendation for a Council decision establishing that action taken has been inadequate under Article 104(8) of the Treaty;
 - Commission communication to the Council on action taken by the country (if action has been adequate);
 - Commission recommendation for a revised Council recommendation to the Member State with the view of bringing the situation of excessive deficit to an end under Article 104(7) of the Treaty (if action taken has been adequate but unexpected adverse economic events with major unfavourable consequences for government finances have occurred after the adoption of the original recommendation);
- Commission recommendation for a Council notice to the Member State prepared in accordance with Article 104(9) of the Treaty;
- Commission recommendation for a Council decision to impose sanctions in accordance with Article 104(11) of the Treaty (none to date);
- Commission recommendation for a Council Decision abrogating the decision on the existence of excessive deficit according to Article 104(12).

Other reports and publications comprise:

- The annual report on “Public Finances in EMU” (in particular, the chapter on evolving budgetary surveillance) and the three-yearly “Sustainability Report”;
- The so-called “Horizontal assessment” of national budgetary developments and their implications for the euro area as a whole (“mid-term budgetary review”).⁴

For the purpose of analysing the issue of timeliness we have focussed on the following documents:

- All documents published under each stage of the preventive arm;
- All documents published under each stage of the corrective arm.

All EU-27 countries have been analysed for the period 2005 to 2009, including the 2008/2009 vintage of SCPs.

2.3 Legal and institutional mandate on timeliness

This section addresses the second sub-question: *What does the legal and institutional mandate specify with respect to timeliness?* A detailed description of the legal framework is provided in Annex I.

⁴ Providing the basis for the Euro group Working Group Spring orientation debate on budgetary policies and the ensuing orientations. These reports are confidential by nature.

In order to answer the sub-question, the legal text and the so-called Code of Conduct (which are available on the ECFIN website⁵) have been studied in order to get a better understanding of the timeliness. Second, where there were elements of uncertainty, interviews with the Unit F4 were held in order to get a clearer picture of the organisational procedures under the preventive and corrective arms.

2.3.1 The preventive arm

The preventive arm of the SGP is based on regular monitoring and surveillance of public finances in the Member State (MS). The aim of Council Regulation (EC) No 1466/97 is to monitor Member States' budgetary positions and coordinate their economic policies, by way of a preventive measure to ensure budgetary discipline during the third stage of economic and monetary union. To this end, the Regulation provides for Stability Programmes (for MS in the euro zone) and Convergence Programmes (for MS outside the euro zone) that the Member States are supposed to submit to the Commission.

Each Member State has a medium-term objective (MTO) for its budgetary position. The MTOs differ between Member States to take into account the diversity of the economic and budgetary positions and developments, as well as of fiscal risks to the sustainability of public finances. Those Member States which have not yet achieved their MTO present in their SCP the adjustment path towards this objective. These programmes are then appraised by the Commission and the Council delivers an Opinion on them.

The legal guidelines with respect to the preventive arm of the SGP are covered under Articles 99 and Article 211 of the Treaty⁶. These articles do not provide any specific guidelines with respect to the issue of timeliness. The institutional mandate (*"Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes"*, the Code of Conduct hereafter) does, however, impose requirements as to the timely delivery of specific outputs for both the preventive and corrective arms of the Pact.

According to the Code of Conduct, each Member State should submit an annual update of their SCP shortly after the national government presents the annual budget proposals to the parliament, but not earlier than mid-October and no later than 1 December⁷. The Economic and Financial Committee (EFC) and the Ecofin Council examine these SCP updates in a maximum of three sessions. In principle, the whole process should be completed before the end of March of each year⁸. The Council has to examine the programme within three months of its submission by the Member State and to adopt a Council opinion on it concerning a recommendation from the Commission and after

⁵ http://ec.europa.eu/economy_finance/other_pages/other_pages12638_en.htm

⁶ See http://ec.europa.eu/economy_finance/sgp/convergence/legal_texts/index_en.htm for all relevant legal texts and guidelines.

⁷ In the case of the UK, submission should be as close as possible to the presentation of the autumn pre-budget report. Austria and Portugal are expected to submit their Stability Programmes no later than 15th of December. Ireland is required to submit its Stability programme update on its annual Budget Day, which traditionally takes place on the first Wednesday of December.

⁸ Code of Conduct, Page 14, available at http://ec.europa.eu/economy_finance/about/activities/sgp/codeofconduct_en.pdf

consulting the Economic and Financial Committee. Where it considers that the objectives and content of a programme should be strengthened, the Council can invite the Member State concerned to adjust it.

2.3.2 The corrective arm

The Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure represents, together with Article 104 of the Treaty, the legal framework for the corrective arm.

The trigger for an EDP is typically the EDP notification of general government deficit and debt data by the MS by 1 April and 1 October of each year. An EDP could also be started by the Commission on the basis of, for instance, the data reported in the SCP. The Commission may also start an EDP if it has the opinion that there is a risk of an excessive deficit in a Member State.

All stages under this Article along with the prescribed timelines are presented below.

According to Article 104(2) the Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States on the basis of two criteria – (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless either the ratio has declined substantially and continuously and come close to the reference value or, alternatively, the excess over the reference value is only exceptional and temporary; (b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

If a Member State does not fulfil the requirements under one or both of these criteria, the Commission shall prepare a report in accordance with Article 104(3).

Within two weeks of the Commission adopting the report, the EFC formulates an opinion in accordance with Article 104(4).

Taking this opinion into account, if the Commission considers that an excessive deficit in a Member State exists or may occur, the Commission shall address an opinion to the Council in accordance with Article 104(5) and a recommendation for a Council decision on the existence of an excessive deficit.

On the basis of the Commission's opinion, and within four months of the reporting dates established in Regulation (EC) No 3605/93, the Council decides, by a qualified majority, whether an excessive deficit exists in accordance with Article 104(6).

If the Council decides that an excessive deficit exists, when it makes that decision, it simultaneously issues recommendations to the Member State concerned, based on the recommendation of the Commission (in accordance with Article 104(7)). The Council establishes a deadline of no more than six months for effective action to be taken. The

correction of the excessive deficit should be completed in the year following its identification, unless there are special circumstances. Upon the expiry of the six-month deadline, the Commission assesses the corrective measures taken by the Member State concerned and informs the Council. In case of a positive assessment, the Commission adopts a communication to the Council; in case of a negative one, a recommendation for a Council decision under Article 104(8) that action has not been adequate. A third possibility is a Commission recommendation for a revised Council recommendation under Article 104(7), which can only be adopted if action taken has been adequate but unexpected adverse economic events with major unfavourable consequences for government finances have occurred after the adoption of the original recommendation. Although the Treaty foresees that, where it establishes that there has been no effective action in response to its recommendations in accordance with Article 104(8), the Council may make its recommendations under Article 104(7) public. In practice all Council recommendations under Article 104(7) to date have been made public with the agreement of the Member State concerned on the day of adoption by the Council of its Article 104(7) recommendations.

Upon failure of the Member State to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State, within two months of the Article 104(8) decision, to take remedial action in accordance with Article 104(9). This step (and the following step under Article 104(11)) only applies to euro area countries. For non-euro area countries, a Council decision under Article 104(8) is followed by a new Council recommendation under Article 104(7).

Where the conditions to apply Article 104(11) are met, the Council shall impose sanctions in accordance with Article 104(11). Any such decision shall be taken no later than two months after the Council decision giving notice to the participating Member State concerned to take measures in accordance with Article 104(9).

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated, following a Commission recommendation, when the excessive deficit has been corrected.

2.3.3 Example

The table below presents the various documents described above and their dates of submission for one country (Portugal). It presents the case of an EDP triggered by the information in a stability programme (and thus not by an EDP notification).

Table 2.1 Example Portugal

Stability programme update	Commission recommendation for a Council opinion	MFA	Council Opinion	Early warning	Policy advice	Article 104 (3)	Article 104 (4)	Article 104 (5)	Article 104 (6)	Article 104 (7)	Communication from the Commission to the Council on assessment of action taken	Council conclusions	Commission recommendation for a Council decision abrogating the decision of the existence of an EDP	Article 104 (12)
9 June 2005	22 June 2005	6 July 2005	12 July 2005	-	-	22 June 2005	4 July 2005 ⁹	20 July 2005	20 September 2005	20 September 2005	21 June 2006	11 July 2006	7 May 2008	3 June 2008

⁹ Confidential document

Similar analyses for all other countries have been carried out and presented in Annex IV.

2.4 Timeliness of publication of outputs

In this section we address the third sub-question: *Are these outputs published / distributed in a timely fashion?* Following the previous analysis, we compared the dates of all documents under both the preventive and corrective arm to the legally or institutionally required deadline. The analysis was done for all Member States. The results of our analysis are presented in the following sections according to the type of document which was studied.

2.4.1 The preventive arm

Annex II provides a detailed overview of the timeliness of the SCPs.

SCP

Although the SCPs are not an output of the Commission, their publication dates are relevant for the timeliness of the process of the preventive arm as a whole. The SCP should be submitted in time in order to meet the end of March deadline. Annex II provides an overview table of all the dates of submission of the SCPs. As mentioned before, there is no legal timeline with respect to submission of the SCPs. However, there is an institutional requirement to do so, as stated in the Code of Conduct.¹⁰ Submission of SCP updates should take place shortly after national governments have presented their budget proposals to parliaments, but not earlier than mid-October and not later than 1 December. From the table we observe that most Member States tend to meet the stipulated institutional timeline for submission of their SCPs. Instances when the Member States have not met the deadline is highlighted in red. Some of these delays occurred due to elections taking place in respective countries. During 2008-09, most countries on the request of the Commission delayed the submission of their SCP or submitted an addendum in order to incorporate their follow-up to the European Economic Recovery Plan. Therefore, the 2008-2009 vintage is excluded from the timeliness assessment of the SCPs.

EFC and Ecofin Council examinations of the SCP updates

The institutional mandate specifies that in order to promote the efficiency of the budgetary and economic surveillance and to achieve a better interaction between different procedures, submission of SCPs and the subsequent EFC and Ecofin examinations should be completed by the end of March each year. There is, however, no legal timeline with respect to the EFC and Ecofin examinations. After consultation with DG ECFIN we found out that the three month deadline is difficult to comply with for the Member States. This is primarily due to efficiency reasons. The Commission strives to deal with the SCPs in a limited number of meetings of the Ecofin Council (typically February and March). This requires practical coordination as well as flexibility with respect to the timeline. The

¹⁰ Code of Conduct, Page 14, available at http://ec.europa.eu/economy_finance/about/activities/sqp/codeofconduct_en.pdf

relaxation of the rule is in agreement with all the stakeholders involved in the surveillance activity.

The SCPs that are submitted significantly beyond their deadline are not discussed in the above mentioned meetings. These are, however, dealt with in a similar fashion by being discussed all together in another Ecofin Council meeting which takes place in the summer, usually in July.

Policy advice and Early warnings

Annex III presents a detailed overview of the Early Warnings and Policy Advice that have been published.

Both the Policy advice and Early warning documents do not have a legal timeline. It has been observed that most countries that entered into an EDP had an Early warning recommendation issued by the Commission. However, in the period under review, the Council did not adopt these recommendations and hence no Early warnings were issued.

2.4.2 The corrective arm

Annex IV provides for a detailed overview of the timelines of all documents under the corrective arm of the SGP.

Each of the steps under the EDP were analysed and the analysis found that all the documents are published in line with the timeline prescribed in the legal text. The table in Annex IV presents a detailed overview of the timelines of all steps undertaken under the EDP for all Member States.

A general feature which is observed to be somewhat out of line is the publication of the EFC opinion. According to Article 104(4) “the Economic and Finance Committee provided for in Article 114 shall formulate an opinion on the report of the Commission.” Based on this opinion of the EFC the Commission considers whether or not to address an opinion and a recommendation to the Council. The institutional requirement is that the EFC opinion is submitted within two weeks of the Commission report being adopted under Article 104(3). It appears that only in the cases of Italy (2005) and Malta (2004) the EFC opinions were not prepared within 2 weeks of the Commission adopting the report prepared under Article 104(4). While in the former case the deadline was slightly exceeded with 8 days, in the latter case the deadline was not met by one day only. In all other cases the 2 weeks deadline has been met. The subsequent document prepared in accordance to Article 104(5) (Commission opinion) acknowledges the EFC opinion. The EFC opinions are not publicly available as EFC documents are confidential.

2.5 Timeliness across countries

This section addresses the fourth sub-question: *Are the outputs consistent across countries with respect to timeliness?* After conducting a desk study on the several timelines imposed and analysing whether or not DG ECFIN abides by them, the study

aimed at checking cross-country consistency for initiating the EDP. This analysis was carried out in three logical steps.

- **Step 1:** Whether there were legal requirements for DG ECFIN to act (i.e. to start an EDP);
- **Step 2:** Subsequently, the analysis verifies the actions of DG ECFIN with the legal requirements;
- **Step 3:** Finally, the analysis examines whether DG ECFIN structurally differentiated between countries in this respect.

To start with, we prepared an overview of all EDP notifications for the deficit figures of Member States during the period 2005-2009. This gave us a good understanding of whether or not there was a legal requirement for DG ECFIN to act (i.e. start with the EDP). Annex V provides a detailed overview of the cross-country comparison with respect to initiating an EDP.

Our analysis confirms that in all cases where there was a legal requirement for DG ECFIN to start an EDP based on the EDP notifications, an EDP was started. In the case of Portugal an EDP was started in 2005 not on the basis of an EDP notification but on the basis of the information in the Stability Programme. Below is the text quoted from the Commission Report prepared in accordance with Article 104(3) on 22 June 2005.¹¹

“In spring 2005 the Commission forecast the Portuguese government deficit at 5.2% of GDP, clearly above the target set by the (previous) government, which relied on sizeable, but not yet specified, extraordinary measures.

[...] On 9 June 2005, Portugal submitted an update of its stability programme covering the period 2005-2009. This update reveals the plans for a general government deficit in excess of the 3% of GDP reference value of the Treaty for the years from 2005 to 2007. More specifically, after a reported deficit outturn of 2.9% in 2004¹², Portugal plans to record a government deficit of 6.2% of GDP for 2005, which is to be reduced to 4.8% in 2006, 3.9% in 2007 and 2.8% of GDP in 2008.

[...] The planned figures for both the deficit and the debt provide prima facie evidence of the existence of an excessive deficit in Portugal within the meaning of the Treaty and the Stability and Growth Pact. In the light of this evidence the Commission has decided to initiate the excessive deficit procedure (EDP) for Portugal.”

¹¹ The document is available on http://ec.europa.eu/economy_finance/publications/publication3396_en.pdf

¹² In its news release No 34/2005 of 18 March 2005, Eurostat communicated the existence of “ongoing discussions between Eurostat and Portugal on the consistency between accrual and cash-based data provided by Portugal, for the period 2001-2004.” Subsequent information provided by the Portuguese authorities indicate small upward revisions for the years 2000, 2002 and 2003, yielding deficit ratios of 2.9% of GDP for each of these years. Eurostat is currently reviewing these revisions.

2.6 Conclusions

The main outputs of DG ECFIN under the SGP can be classified under the preventive arm and the corrective arm.

The main outputs of DG ECFIN under the *preventive arm* analysed in this chapter are the SCPs, EFC and Ecofin Council examinations of the SCP updates, Policy advice and Early warnings. The legal guidelines with respect to the preventive arm of the SGP, covered under Articles 99 and Article 211 of the Treaty do not provide any specific guidelines with respect to the issue of timeliness. The institutional mandate (Code of Conduct) does, however, impose requirements with regard to the timely delivery of specific outputs for both the preventive and corrective arms of the Pact.

With respect to the SCPs most Member States tend to meet the stipulated institutional timeline for its submission. Some instances where the Member States did not meet the deadline occurred due to elections taking place in the respective countries.

With respect to the Ecofin Council examinations of the SCP updates there is no legal timeline. However, based on the institutional mandate the EFC and Ecofin examinations should be completed by the end of March of each year. The three-month deadline was found to be difficult to comply with for the Member States primarily due to efficiency reasons.

Both the Policy advice and Early warning documents do not have a legal timeline. In the period under review, the Council did not adopt the Commission recommendations and hence no Early warnings were issued.

Based on our analysis carried out in this chapter, we conclude that the outputs under the preventive arm are produced in a timely fashion.

The Council Regulation (EC) No 1056/2005 of 27 June 2005 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure represents, together with Article 104 of the Treaty, the legal framework for the *corrective arm*.

Each of the steps under the EDP were analysed and the analysis found that all the documents published under the corrective arm were in line with the timeline as prescribed in the legal text.

Finally, with respect to the issue of *timeliness across countries* it was observed that DG ECFIN does not structurally differentiate between countries.

3 Efficiency

3.1 Evaluation question and approach

This chapter touches upon the second question which has been addressed in this evaluation:

“To what extent are resources used efficiently in budgetary surveillance?”

The question is divided in two sub-questions:

1. Does DG ECFIN devote an efficient number of resources to this activity and are these resources properly allocated?
2. Does budgetary surveillance receive the necessary support from within and outside DG ECFIN regarding the availability and quality of data and other relevant inputs (public finance statistics, information on measures, methodologies)?

To answer these questions the various Annual Activity Reports¹³ and the contributions to the Annual Policy Statements which were prepared at the beginning of the Activity-Based Management cycle at the Commission have been studied. This analysis served as a starting point for more detailed data collection at the EC by means of interviews with staff of units delivering the outputs and the units providing inputs to the first mentioned units. Moreover, benchmarking with two international organisations by means of desk research and interviews with staff involved in country surveillance and in public finance has been conducted.

During the analysis we have taken the two sub-questions together as support from within and/or outside DG ECFIN may influence the use of resources and the proper allocation. The study does not address the issue on the appropriate balance between the use of resources between directorates comprising the country desks, the horizontal unit and other units as this is difficult to judge objectively and would require a full functional review. Given the information available a true efficiency assessment is difficult to make. The focus has been on key observations which touch upon the operations of the fiscal surveillance activities of DG ECFIN.

¹³ http://ec.europa.eu/atwork/synthesis/aar/index_en.htm

3.2 Organisation of fiscal surveillance

3.2.1 General context

Human resources

Table 3.1 provides figures on the overall size of human resources available and the allocation of financial commitments related to the Activity Based Budget (ABB) activity 01.02 'Economic and Monetary Union'. The main spending activities under this ABB activity are the coordination and surveillance of Economic and Monetary Union and the communication activities on EMU and the euro (PRINCE).

Table 3.1 Human resources allocation by ABB activity 01.02 Economic and Monetary Union

	2004	2005	2006	2007	2008
Established plan posts	214.4	226	255	267	272
External personnel*	35.8	39	37	37	28
TOTAL	250.2	265	292	304	300
Spending					
Commitments (in mln EUR)	8.5	9.9	10.9	13.4	14.6
Payments (in mln EUR)	2.1	8.0	8.3	10.7	12.7

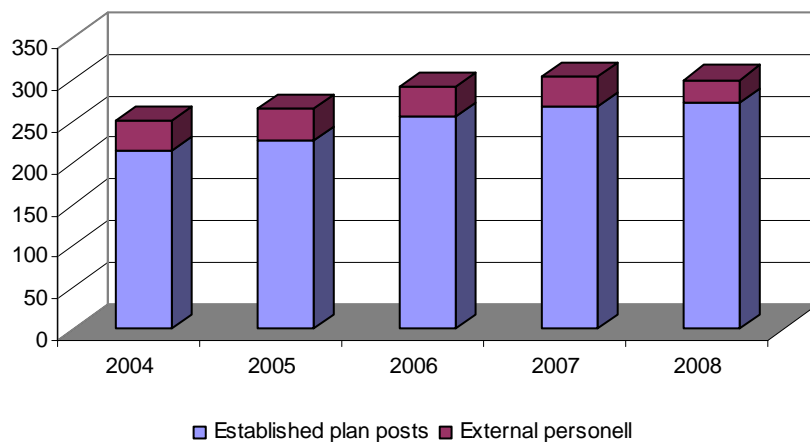
Source: DG ECFIN, Annual Activity Reports

* Before 2007 = Auxiliary agents, Interim personnel, prestataires de service, national detached experts + Other outside personnel in part A of the Budget

The table shows that the number of established plan posts increased from 214 in 2004 to 272 in 2008. ABB activity 01.02 involves more than just fiscal surveillance, but it is clear that the main increase occurred after 2005 when the scope of fiscal surveillance was broadened and the accession of new EU countries ultimately also resulted in more human resources allocated to this ABB activity. This increase of staff has occurred gradually over the 2005-2008 period.

Figure 3.1 shows that in 2008 the total number of staff relate to this ABB activity declined slightly, mainly because of the decrease of external personnel.

Figure 3.1 Human resources allocation by ABB activity 01.02 Economic and Monetary Union

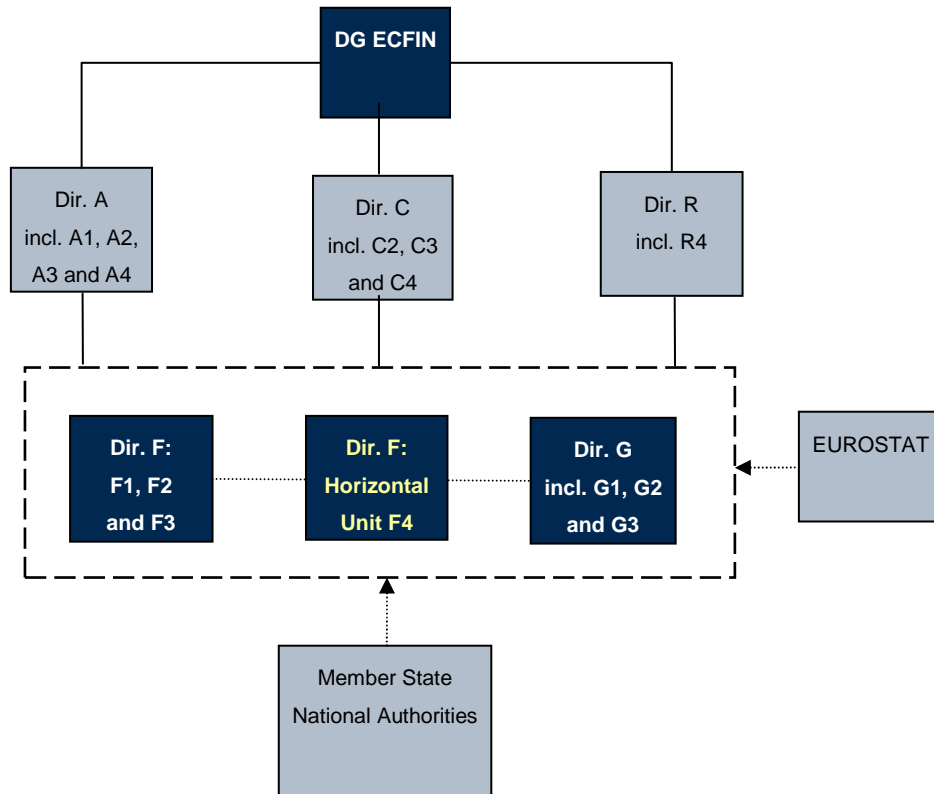


3.2.2 General description of the organisation of fiscal surveillance

The picture below depicts in general the current organisation of fiscal surveillance as of January 2010.¹⁴

¹⁴ Based upon organisational chart of DG ECFIN, available on http://ec.europa.eu/dgs/economy_finance/organisation/ecfin_org_chart_en.pdf

Figure 3.2 Organisation of fiscal surveillance



Note:

Unit A1 – Econometric models and medium term studies

Unit A2 – Economic databases, statistical coordination and research activities

Unit A3 – Economic studies and business cycle surveys

Unit A4 – Forecast and economic situation

Unit C2 – Fiscal policy in the Euro Area and the EU

Unit C3 – Monetary and exchange rate policy of the euro area and of the other Member States; ERM II and euro adoption

Unit C4 – Fiscal sustainability

Unit F4 – Coordination of country specific policy surveillance

Unit R4 – External communication

Unit F1 – Ireland, Italy, Malta, Slovenia

Unit F2 – Denmark, Germany, Finland, Austria, Sweden

Unit F3 – Bulgaria, Greece, Spain, Cyprus, Portugal

Unit G1 – Estonia, Latvia, Lithuania, United Kingdom

Unit G2 – Belgium, France, Luxembourg, Hungary, Netherlands

Unit G3 – Czech Republic, Poland, Romania, Slovakia

Fiscal surveillance activities involve several units of five Directorates of DG ECFIN (A, C, F, G and R).

Directorates F and G are at the heart of the fiscal surveillance activities and comprise the country desks which are responsible for:

- Producing country economic forecasts as an input into country-specific budgetary surveillance;
- Producing country-specific reports, and preparing official Commission documents, some of which taking the form of recommendations for Council acts (thus enabling the Commission and Council to adopt acts foreseen in the Treaty and the SGP).

The horizontal unit F4 is responsible for:

- Ensuring the efficiency and consistency of budgetary surveillance across the EU member states via horizontal planning and follow-up of the application of the instruments of country-specific surveillance.

The table below presents the development of the staffing levels for Directorates F and G for the 2007-2010 period.

Table 3.2 Staffing levels Directorates F and G 2007 – (January) 2010¹⁵

	2007	2008	2009	2010
Directorate F				
AD5-AD16	34	33	35	34
AST1-AST11	13	15	15	15
TOTAL	47	48	50	49
Directorate G				
AD5-AD16	30	30	32	34
AST1-AST11	14	13	13	13
TOTAL	44	43	45	47

Source: DG ECFIN

Unit C2 is responsible for:

- Monitoring the budgetary surveillance framework.

Unit C3 is responsible for:

- Monitoring monetary and exchange rate policy of the euro area and of the other Member States, ERM II and euro adoption.

Unit C4 is responsible for:

- Long-term fiscal sustainability.

Input in fiscal surveillance is provided by various units in the form of:

- Econometric models and medium-term analysis – unit A1;
- Economic data bases, statistical coordination and research activities – unit A2;
- Forecasts and economic situation – unit A4.

Finally, Unit R4 is responsible for:

- The external communication about the outputs of budgetary surveillance.

¹⁵ Data on staffing levels before 2007 are not comparable with the 2007-2010 data due to changes in the organisation and in staff grading. Therefore, they are not presented here.

The reason for inclusion of Eurostat is to put into perspective the statistical role of Eurostat in the budgetary surveillance process.

3.3 Internal organisation of fiscal surveillance at DG ECFIN

This section contains our findings based on interviews with DG ECFIN staff and analysis of the various Annual Activity Reports and the contributions to the Annual Policy Statements which are prepared at the beginning of the Activity-Based Management cycle at the Commission.

- Compared to the IMF which is organised according to both country and functional departments, the organisation of fiscal surveillance at DG ECFIN relies mainly on a country perspective. Most staff are permanent EC staff members.
- The contributions to the Annual Policy Statements and the Annual Activity Reports repeatedly indicate requests for additional resources and the potential risks of perceived human resources shortages at DG ECFIN. Exact difficulties and the possible consequences of these constraints are not further specified in these documents, except by some general phrasing of the main issues. Box 3.1 presents the concerns as mentioned in the Annual Activity Reports.

Box 3.1 Concerns concerning shortage of human resources in the Annual Activity reports

Year	Annual Activity Reports
2008	The <i>shortage of human resources</i> , which was already raised in previous Annual Activity Reports, has not been resolved in 2008. On the contrary, the economic and financial markets crisis has had significant implications on the workload of the DG, more particularly in relation to macroeconomic surveillance and monitoring of macro-financial stability (not only EU-27 but also in the neighbourhood countries), contribution to the reform of the global financial architecture, and increase in the borrowing and lending activity. Since the effects of the crisis will be profound and possibly long-lasting, the resulting additional workload is also expected to become permanent in the medium term.
2007	The <i>shortage of human resources</i> , which was already raised in previous Annual Activity Reports, has not been completely resolved in 2007. As a result, the DG still encounters difficulties to meet its objectives, in particular as regards economic surveillance and policy co-ordination.
2006	In the context of a DG BUDG pilot exercise aimed at identifying cross-cutting risks – "risks that affect or otherwise concern more than one DG, which may require alternative management arrangement (outside the DG) to be addressed effectively and efficiently", DG ECFIN has identified three areas which were facing potential cross-cutting risks: <i>human resources</i> , accounting, and the coordination of the Lisbon strategy. The <i>shortage of human resources</i> , which was already raised in previous Annual Activity Reports, has not been resolved in 2006. As a result, the DG still encounters difficulties to meet its objectives, in particular as regards economic surveillance and policy co-ordination.
2005	<i>Human resources (recruitment)</i> : ongoing efforts to improve the attractiveness of DG ECFIN as an employer (e.g. reconciling professional/private life) should reduce risks; efforts to improve

Year	Annual Activity Reports
	<p>the attractiveness of country desks will be considered.</p> <p>The <i>shortage of human resources</i>, which was already raised in previous Annual Activity Reports, has not been resolved in 2005. As a result, the DG still encounters difficulties to meet its objectives, in particular as regards economic and budgetary surveillance and policy co-ordination.</p>
2004	<p>In the Annual Activity Reports of 2002 and 2003, the lack of human resources in DG ECFIN was highlighted. The additional resources that have been received in the previous years (18 in 2003; 15 in 2004) have been mainly used to strengthen the internal control environment and to cover enlargement needs. However, it has not been possible to substantially reinforce economic surveillance and policy coordination in EMU. The 9 additional posts that DG ECFIN will receive in 2005 will also not resolve the tight resource situation. Internal redeployment is also not an option as a working group of Heads of Unit, which was created at the end of 2004 to look at ways to increase the efficiency of the use of human resources in DG ECFIN, concluded that there were no major savings to be made through the elimination of overlaps within the organisation. Although the continuing lack of human resources cannot be a reason for a reservation, as it does not affect the declaration of the Director General, the shortage of human resources does affect the DG's capacity to realise its objectives.</p> <p>The <i>shortage of human resources</i>, which was already raised in previous Annual Activity Reports, has not been resolved in 2004. As a result, the DG still encounters difficulties to meet its objectives, in particular as regards economic and budgetary surveillance and policy co-ordination.</p>

While in 2004 and onwards shortages of staff was caused by the additional work due to accession of new Member States, it was also brought about by the broadening of the scope of the fiscal surveillance, and recently by the economic and financial markets crises resulting in almost all Member States falling under the EDP.

- Interviewees at DG ECFIN indicate that at present many vacancies have been filled. Some interviewees expressed that the staffing issue does not concern as such the quantity of staff members, but the years of experience of staff members at the country desks. Vacancies are not always filled immediately.
- The Commission holds an internal mobility policy which encourages staff to change their positions every two to five years. Before taking up a new position, each staff member should prepare a hand-over file. Basically, the present hand-over arrangements are functioning. Nonetheless, a few interviewees indicated that they would like to be supported at the start of their work by their predecessor. However, this is not always possible, since there is not always a time overlap between a staff member leaving a position and a new staff member taking up the position.
- The turnover of staff at the country desks is rather high. According to the interviewees, on average a country desk officer stays two to three years at his or her post, although there are exceptions. The workload is generally perceived as high. The workload was

perceived very high during the last forecast round and EDP round in 2009. The perception on workload depends partly on the experience of the respective officer working at the country desks. According to the interviewees acquiring good experience requires at least experiencing one good vintage, a round of forecasts, and some aspects of policy advice. The first year of a new desk officer is experienced as very stressful. However, one interviewee expressed that: “there is no time to moan and groan”. One interviewee suggested that at least it must be ensured that the country analysed by new staff will not be part of the first group of countries being reviewed by the EFC. A few interviewees repeated the remark included in the 2005 Annual Activity Report, experiencing difficulty in reconciling professional with private life.

- Another factor mentioned by a few desk officers is the fact that from a career perspective a desk officer would need to move within a certain number of years from the country desk to the horizontal units. The first year is considered a learning year; the second one a year where one feels comfortable doing the job, while in the third year the work is becoming more routine.
- Some interviewees would like to have more time allotted to producing the first version of the assessment reports. In their view at present relatively a lot of time is spent on making revisions, of which some of them are perceived as very minor ones. This influences the perception of the huge work load of the desk officers interviewed. The comments of the interviewees are to be seen in the context of the hierarchical clearance and decision-making procedures within the Commission (see Box below). Given these procedures, desk officers have to produce the documents under huge time pressure.

Box 3.2 Decision making and clearance process for formal SGP-related documents

The procedure at the Commission, including the Inter-Service Consultation (ICS), follows a hierarchical chain. The responsible desk officer at DG ECFIN begins the drafting of the first version of the assessment reports. This version is reviewed by the Head of Unit and/or Deputy head of Unit and by the Horizontal Unit F4. Consequently the reports are transferred to the higher managerial levels, i.e. Director and Director-General and then to the Cabinet of the Commissioner.

The (revised) draft reports are sent to Inter-Service Consultation. Other DGs that have an interest in the reports are consulted by DG ECFIN, and may propose modifications to the draft versions.

At the end of the Inter-Service Consultation, the (possible newly revised) reports are sent to the College of Commissioners. The preparatory work of Commissioners' meetings is carried out by their Cabinets. They have a crucial role in ensuring smooth relations between the competent DG and the competent Commissioner.

- In this context, quality assurance happens at various levels within the organisation: from desk officer to deputy head / head of unit, to director and at the same time to the horizontal units, to director-general, to Cabinet of the Commissioner. At the level of units, the focus of quality assurance is on those desks having relatively new staff and on one-person country desks. Experienced officers' work will need less thorough review en revision compared to the work of relatively new staff members.

- The background of the staff appears to fit the requirements of the work at the country desks. Almost all have a strong background in economics. Most new staff just entered the Commission and therefore started their first post by working for DG ECFIN. New staff primarily learn on the job by doing, supported by guidance of the unit managers to the desks officers.

Generally, DG ECFIN organises a number of general in-house training workshops, but due to the workload related to the last EDP round it did not happen last year.

Furthermore, ahead of each SCP round in-house training sessions are organised. Some interviewees argued that only a limited number of training workshops are organised, and argue for having more training options to get better prepared for their new posts.

- Flexibility of use of staff across country desks is limited and almost non-existent across the level of units. One interviewee mentioned that “only in real desperate cases a solution will be found.” Deputy heads of units stated that flexibility within a unit is higher than between units. Partly this is explained as desk officers need to have country-specific knowledge which is not easily and quickly transferable. But again experienced desk officers are more optimistic that they can swiftly take over the tasks of another desk if circumstances may require this. In one unit some type of pooling of staff exists; but this is not happening in other units. Within DG ECFIN ideas of forming so-called ‘country teams’ across units have been discussed, but so far have not been formally introduced. On the other hand it is considered that due to very tight job descriptions it will be difficult to easily re-allocate staff to take up tasks of other desks.
- Most country desks have two responsible desk officers. In case of holidays or illness, one desk officer can provide back-up for the other desk officer. In certain circumstances, such as in case of a vacancy or at one-person country desks, the back-up is provided by the deputy head or head of unit.
- Informal sharing of experience and country practices among country desk officers occurs on a regular basis. According to the interviewees, sharing happens especially between country desk officers working within a particular unit, and is happening less between staff working at different units. Some interviewees expressed that “*walls should break down*” referring to the value of sharing more the knowledge and experiences with staff working at another unit.
- Management styles and work methods within units seems to differ in some respects. For instance, this explains the existence of a pooling system in one unit, and the structured filing of documents according to a common filing structure on the internal server in another unit. At country desks with two (or more) staff members labour specialisation takes place, where desk officers are dividing the work in macroeconomics subjects and public finance issues. At one-person country desks such labour specialisation cannot take place.

Interviewees perceive that middle and high level managers pay significant amount of time to the content of the work in general and the reports specifically.¹⁶ Some

¹⁶ This confirms earlier findings in a recent study on senior management development in the European Commission.

interviewees would like to see more prioritisation of the work of middle and senior managers (for instance on the most important dossiers related to the Stability and Growth Pact), instead of focussing on “everything” (including as well analytical contributions related to the Lisbon agenda).

- All interviewees expressed their high satisfaction with the work and support provided by the supporting units. Especially the horizontal unit F4 and unit C2 are seen as the most important supporting units. The work and support received from the horizontal unit F4 is very highly appreciated by the country desks. The calendars for the different outputs are clear. The templates are considered to be a good guiding tool for preparing the macro-fiscal assessments and EDP reports. Experienced staff perceive the templates as too restrictive, but underline the benefits of having these templates both for providing guidance to less experienced staff and for the need for horizontal consistency. Few interviewees would like to see better streamlining of the calendars of the different outputs. Staff of the horizontal unit are always open for additional explanation, clarification and are open to answer specific questions. Country desk officers perceive the workload of the horizontal unit even higher than their own workload. Interviewees do not have special views on the support of the other units providing inputs to the country desks.
- Good formal and informal contacts exist between the country desks and the relevant institutions in the Member States. Information is shared regularly with regard to intended policies, relevant statistical information as well as analytical tools. For instance, the UK desk is using the same economic models of the Bank of England when analysing planned policy changes.
- Support from organisations or directorates outside DG ECFIN is not seen as an important issue. It is considered not to be needed as much as intra-DG ECFIN support in order to conduct the activities of the country desks.
- The internal review process or ‘post mortem’ is in general organised by email after the production of each output. The process is an informal assessment fed by feedback of staff on open questions. It focuses not on performance of units or staff, but on the ‘production process’. Feedback is provided on a voluntary basis. Sometimes this is followed by team meetings. Staff is very critical on value of the post mortem process, although in theory lessons should feed into the next rounds.
- The last EDP round has been considered exceptional and increased even the workload, especially due to the hence and forth circulations of comments. The perceptions of huge workload has also been influenced by the so-called ‘steering points’ by the Cabinet of the Commissioner, which in particular in the last EDP round changed during the execution of the tasks by the country desks and the horizontal unit. Although senior management usually coordinates its work with the Cabinet, with respect to the last EDP round a few interviewees indicated that perhaps senior management of DG ECFIN could have entered into a more meticulous discussion or ‘pre-coordination’ with the Cabinet before the ‘steering points’ were sent further to the horizontal unit and subsequently to the country desks. The last round was characterised by several interviewees as “*working with moving targets*”.

3.4 Internal organisation of country surveillance at other organisations

Fiscal surveillance at the IMF and the OECD is part of their country surveillance activities. Box 3.3 below indicates a number of other related country surveillance activities of the country desks at DG ECFIN in order to put their budgetary surveillance and other surveillance activities into a comparable perspective with IMF and OECD country surveillance.

Box 3.3 Country surveillance by the country desks at DG ECFIN

Fiscal surveillance is only part of the surveillance activities conducted by DG ECFIN and the respective country desks. Country surveillance at DG ECFIN encompass a range of other operational and strategic outputs, such as macroeconomic forecasts, analysis of policies and structural reforms in support of the Lisbon Strategy, economic analysis of the impact of ageing in the Member States (incl. estimates of age-related expenditure projections), business and consumer surveys, the yearly EU Economy Review, etc

Country desks contribute to a varying extent to these various outputs. The scope of their surveillance activities is much broader than *fiscal* surveillance.

3.4.1 International Monetary Fund

Key characteristics of surveillance at the IMF

Documents on the internal organisation of surveillance at the IMF are hardly publicly available. The annual report and annual financial statements contains barely budget or human resources information, unlike various EC reports. Interviews with relevant IMF staff of the euro zone desk and the Fiscal Affairs Department led to the following observations:

- A special euro zone desk assesses the SGP as a whole for the entire euro zone area as part of regional surveillance. Country specific issues are covered by other desks, such as the G-7 desk comprising EU Member States as the UK, Germany, Italy and France, as part of the individual country surveillance. The euro zone desk comprises 4 staff members (head of mission and three economists). Country desks comprise typically one to two economists, while larger countries desks have sometimes three staff members.
- Besides regional or country surveillance, the tasks of the desks encompass:
 - Conduct of other analytical work, including preparing vulnerability tests;
 - Putting together, when needed, financial arrangements to support economic reform programmes;
 - Updating of the statistical data for each country;
 - Contribution to the World Economic Outlook database (before the crisis bi-annually, now even quarterly);
 - Directed research in the context of the World Economic Outlook or regional Economic Outlooks or in the form of ‘Board Papers’;

- Own research (about 10 to 20% of staff time may be spent on this), although “there is no pressure” to conduct own research.
- In the case of Article IV consultations staff of the respective area department is supplemented by additional staff of functional departments, such as the Fiscal Affairs Department providing, for instance, fiscal economists. This happens only for those countries which have an ongoing IMF programme or are faced with fiscal issues identified in past programmes. For so far due to the recent global financial and economic crisis this has occurred in the case of four EU Member States (Latvia, Hungary, Bulgaria, and Romania).
- Mobilisation of an extra economist does not require much effort and time. In some cases it can be arranged in a fortnight; in other cases within one to two weeks.
- Due to recent joint programmes, such as for Hungary, coordination between the IMF and the EC has been strengthened. IMF staff and EC staff have prepared and conducted joint missions which are regarded by the IMF as very useful. It did not result in having less IMF mission staff members, but it resulted in common meetings, less time spent by and lower burden of national authorities’ staff.
- IMF staff iterated that “institutional constraints are much stricter for the EC than for the IMF”. They also admitted that the EC can mobilise less people in the field (for instance, in Hungary the EC had about 3 staff members on mission, while the IMF mission was twice as large).
- IMF has (now more) the option to recruit people with temporary (two-year renewable) contracts, which makes the organisation according to the interviewees responsive to suddenly changing (external) circumstances.
- Article IV consultations are implemented using on the one hand a standardised approach, but allowing at the other hand the review of special topics (e.g. fiscal federalism in the case of Germany), which are suggested by IMF staff or in rare cases at the request of national authorities (e.g. Switzerland).
- Compared to the EC the regional and country desks maintain their own statistical database. Databases for external purposes (Government Financial Statistics, International Financial Statistics, etc.) are developed and maintained by the Statistics Department and the regional and country desks are in fact providing support to the Statistics Department (‘bottom-up approach’).
- The area departments do not develop own economic forecasting models. Most of the work is based on analytical work and “*plain judgement*”. The large economic models (CGE models) are developed by the Research Department and are used to model global economic and financial developments.
- Internal review processes are formalised and are very thorough. Every relevant department may comment on draft outputs. The Strategy, Policy and Review Department plays a special role as it is the only functional department which can

exercise a veto right on certain IMF outputs. This has been strengthened recently. The Strategy, Policy and Review Department checks for IMF-wide internal consistency.

- The problems with public finances worldwide have led to a (slight) change of the role of the Fiscal Affairs Department. Previously, it was reviewing the draft outputs (staff reports) of the area departments, but at present it prepares as well before the field mission policy notes as input into an internal briefing paper. As part of its core activities, the Fiscal Affairs Department is also providing technical advice to individual member countries.
- Preparation of missions is planned well-ahead of the actual field visit. The process of country surveillance starts with an internal briefing paper prepared before an IMF mission visits a particular country. The briefing paper describes the economic situation of the country and includes the views of IMF staff on current economic, fiscal and monetary policies and the policy changes needed. Senior staff and IMF management reviews the paper to make sure that problems are sorted out before the actual review is conducted. In general two field visits are made: (i) short staff visit for preparation (“to test ideas”) which takes place at a working level; (ii) actual two-week field mission with high-level meetings with (deputy) ministers of finance, governors of the central bank and other high-level officials.

3.4.2 Organisation of Economic Cooperation and Development

Key characteristics of surveillance at the OECD

- Since the establishment of the OECD in 1961, it carries out regularly monitoring and evaluation of the economic situation in its member states and their respective policies. The OECD produces an Economic Survey every 18 to 24 months for each country which is derived from a detailed surveillance process. The Economic Surveys have evolved over the years. While at the start, the Surveys focused on short-term macroeconomic developments, nowadays, the focus is mostly on policies having a potential to improve the economy’s long-run performance.
- The OECD’s surveillance is a two-tiered process consisting of a *preparatory phase* and a *discussion phase*. The whole process takes approximately one year, much longer than in the case of comparable IMF and EC reports. The country reports are prepared by the OECD Secretariat or, more specifically, a country desk in the Economics Department. The process begins with a detailed questionnaire being sent to the country being surveyed. National administrations inform the staff of the OECD about recent economic developments, their forecasts and the underlying assumptions. In addition, a country could indicate how it intends to solve economic problems or which policy initiatives are currently being planned or discussed.

This phase is followed by a staff team visiting the country for a ‘scouting mission’. The mission comprises of a team consisting of two economists, sometimes with additional specialists, and is supervised by a division head. During this mission the staff members gather key information from officials of ministries, central bank, social partners and research institutes to understand circumstances in the host country. Like

with the IMF, during this mission, no political discussions take place. These are conducted at a later stage of the surveillance process. Based on the information gathered the OECD prepares a first draft of the country survey containing a preliminary assessment of major problems and an evaluation of the appropriateness of the actions of the respective government. Each survey contains a special country-specific topic.

The second country mission is carried out after approximately three months after the first mission and following up on the draft Economic Survey. At this stage the mission team is headed by a director. The OECD staff addresses a country's weaknesses and vulnerabilities. The purposes of the second mission are: up-dating information and initiating policy discussions. The mission ends with high-level bilateral discussions between the OECD and the national authorities during which the mission team presents its assessment.

After the mission, the team produces a final draft of the Economic Survey. About four weeks prior to the multilateral discussion in the Economic Development and Review Committee (EDRC) the draft is distributed to all member countries. At this point, the bilateral preparatory phase ends.

- The process continues at the level of the EDRC, an intergovernmental body that decides on the principle of unanimity. Unlike at the IMF, the EDRC is responsible for publishing the Economic Survey, and thus not the OECD Secretariat. Two reviewers are assigned to every examined country to lead the discussion. An EDRC meeting begins with a statement of the country under review. The delegation of the country being reviewed explains its view. Subsequently, the reviewers pose questions before the general discussion. The entire procedure is motivated by *peer review and peer pressure*. Any government has to come up with reasonable arguments for its behaviour and defend its own policies in the light of probing questions. These discussions are directed at redrafting the survey in a way that *all* governments can eventually agree to it. The chair of the meeting produces a summary of the discussion, on which the economic survey's redrafting is based. The EDRC meeting lasts between half a day and a day.

3.4.3 Learning points

Even though it is difficult to make comparisons of the organisation of country surveillance processes between international organisations, some learning points can be emphasized:

- Fiscal surveillance at the EC is a continuous process for every Member State. The reports are produced under tight deadlines and are prepared for all Member States. Article IV consultation reports and OECD economic surveys are prepared for *one* particular country at one particular moment in time and are produced throughout the year. This difference has its implications for the internal organisation of the work. The calendar of the fiscal surveillance outputs of the EC are mandatory and cannot be changed, while the *calendar of the outputs of the IMF and OECD is more flexible*.

Compared to particularly the OECD economic surveys the outputs of DG ECFIN are prepared under tight deadlines and follow a hierarchical decision making and clearance process.

- With respect to the OECD economic surveys, the reports are reviewed on the basis of peer review. At the IMF the Strategy, Policy and Review Department plays a special role in reviewing the draft Article IV consultation reports and in ensuring IMF-wide internal (horizontal) consistency. This department is the only functional department which can exercise a veto right on certain IMF outputs. At the EC review of the quality is governed by the hierarchical clearance and decision-making process. Horizontal unit F4 plays a special role as it watches over horizontal consistency.
- The mainly geographical organisation of the budgetary surveillance work at the EC is in contrast with the combined geographical and functional approach towards surveillance in the other two international organisations. The internal organisation of the IMF and OECD appear to allow more flexibility in terms of country teams.
- Flexibility in the use of human resources is very limited within DG ECFIN across country desks, and almost zero across different units. *More flexibility in terms of the use of human resources exists in the other two international organisations.* The IMF is working as well with temporary contracts to attract specialists to cope with certain peak periods.

3.5 Conclusions

Based on the findings above we conclude that there is no evidence that resources are being used inefficiently in the budgetary surveillance. The interview findings indicate that the lack of human resources is not seen as a serious problem anymore as reported repeatedly in the Annual Activity Reports of the last few years. Over time the shortages have been fulfilled.

The main concerns relate to the high turnover of staff and the perceived high workload for particularly new staff. To some extent there is limited flexibility in using staff from one country desk to another country desk. Especially between units there is hardly any flexibility in the use of staff.

Some interviewees consider that for new staff more training options are needed in order to be better prepared for their new posts. Several interviewees would also like to see that middle and senior managers would prioritise their work on the most important dossiers related to the Stability and Growth Pact, instead of focussing on all the work of the country desks.

Staff is very critical on value of the present internal review or 'post mortem' process.

The findings indicate that budgetary surveillance is receiving the necessary support from units within DG ECFIN. The support provided by the units F4 and C2 have been explicitly noted and highly appreciated.

4 Quality

4.1 Introduction

This chapter analyses the third question which has been addressed in the evaluation:

“Are the outputs based on sound analysis and to what extent has the progressive broadening of the scope of budgetary surveillance contributed to improving the quality (soundness) of budgetary surveillance?”

In the following sections our findings are presented first for the preventive arm of the SGP (section 4.2) and then for the corrective arm (section 4.3). As far as the former is concerned, specific focus will be on five countries: France, Hungary, Italy, The Netherlands and the UK. Regarding the latter, we have analysed the EDPs that started and were completed during the period under surveillance for the same country sample as above plus Portugal. These are the EDPs for Italy, Portugal and the UK. The country sample has thus been selected to accommodate the various possible splits of the entire group of Member States: euro group versus non-euro group, countries under close scrutiny (subject to an EDP) versus those not subject to close scrutiny, large versus small countries, and new Member States versus old Member States. The progressive broadening of the scope of budgetary surveillance has been investigated *only* for the Commission assessments of the Stability and Convergence Programs. These macro and fiscal assessments are the key output produced by the Commission Services under the preventive arm, and constitute the main starting point for the subsequent Commission Recommendations for Council Opinions.¹⁷ Section 4.4 presents the analysis of Part II of the Public Finance Report and section 4.5 the Sustainability Report. The conclusions are summarised in section 4.6.

¹⁷ The preventive arm includes also two additional policy instruments: (i) *Early Warnings*, addressed by the Council under a proposal of the Commission, and the (ii) *Policy Advice*, in which the Commission can directly address policy recommendations to a Member State as regards the broad implications of its fiscal policies. For the period and country sample under examination in this Report, one Policy Advice was produced for France on 28th May 2008. In this five-page document, the Commission first provided a short assessment of the past implemented policies and the key macroeconomic and budgetary projections. Then, on the basis of this analysis, the Commission addressed a number of recommendations to the French Republic. In particular, the Commission recommended to: (1) pursue with determination the ongoing structural reforms; (2) carry out the necessary consolidation of public finances in support of the reform process, and (3) implement rigorously the policy invitations of the Council issued on the updated stability programme for the period 2007 to 2012.

4.2 Preventive arm: surveillance of budgetary positions

4.2.1 Introduction

This section provides an evaluation of the quality of the budgetary surveillance outputs of DG ECFIN produced as part of the preventive arm of the SGP, which is based on the Council Regulation (EC) No 1467/97, amended with the Council Regulation (EC) No 1055/2005 (as indicated previously, more details on the legal framework are found in Annex D). In particular, the outputs under investigation are the ‘Macro-Fiscal Assessments’ (MFAs) which form the basis of the recommendation for Council opinion on updated Stability and Convergence Programmes (SCPs).

First, an overview of the structure and content of the MFAs in the vintage 2005/2006 is provided. This is followed by our comments on the changes implemented in the MFAs of the vintages 2006/2007, 2007/2008 and 2008/2009 with the aim of assessing to what extent the progressive broadening of the scope of the surveillance process contributed to improving the quality of the budgetary surveillance. This is followed by an assessment of the quality/soundness of the underlying analysis. Finally, the MFAs will be benchmarked with the IMF Article IV Country Reports to explore room and need for (further) improvements.

4.2.2 Assessment of MFAs – structure and contents

The MFA is a technical analysis of the SCP prepared by the staff of, and under the responsibility of, DG ECFIN. The analysis takes into account (i) the Commission services’ Autumn forecasts, (ii) the Code of Conduct and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances. The precise content of this document is very similar across countries¹⁸, but differs across vintages.

MFAs of the vintage 2005/2006

The structure and content of the MFAs of the vintage 2005/2006 consists of a summary and conclusions and an introduction followed by (1) Economic outlook, (2) General Government balance, (3) General Government gross debt, (4) Structural reform, the quality of public finances and institutional features, and (5) Sustainability of the public finances.

The “*Economic Outlook*” section analyses the plausibility of the macroeconomic scenario (economic activity, labour market, costs and prices) underpinning the public finance projections of the programme. In particular a table comparing the macroeconomic developments and forecasts (up to 4-year ahead) of the Commission Autumn forecasts (COM) and the Stability/Convergence Programme (SCP) is provided. The sources of potential differences between COM and SCP are then identified (e.g. external

¹⁸ In the vintage 2005/2006, given that Hungary and the U.K. have their own monetary policy, the MFAs of their convergence programs contain an extra section titled “Medium-term monetary policy objectives and their relationship to price and exchange rate stability”.

assumptions on interest rates, oil prices, exchange rate, etc).¹⁹ Consistently with the legal mandate, particular attention is paid to the sources of potential output growth, the calculation of which is based on the commonly agreed methodology.

The “*General government balance*” section consists of four parts. The first part compares the targets of the general government balance in the new update with those of the previous programme. It also discusses the budgetary implementation in the current year, with analysis of the underlying sources explaining any deviation due to statistical revisions, slippages in expenditure, revenue and output surprises and one-off measures implemented in the current year. The second part looks at the budgetary strategy in the new update, by describing (i) the main goal of the budgetary strategy, (ii) the composition of the budgetary adjustment and (iii) the programme’s medium-term objective (MTO) for the budgetary position (a first for this round, as it was the first round after the 2005 reform of the SGP which introduced the country-specific MTO) and the adjustment path in structural terms. The third part provides an assessment of the appropriateness of the MTO, the risks attached to the budgetary projections in the programme (e.g. output forecasts, assumptions on expenditure and revenues, lack of information on planned measures), and compliance with the budgetary requirement of the Treaty and the SGP. Finally, the fourth part discusses the results of the sensitivity analysis produced in the programme. In particular the sensitivity to alternative growth scenarios and changes in interest rates are assessed. This analysis is also carried out with additional simulations of the Commission services.

The “*General government gross debt*” section consists of two parts. The first part describes the debt path envisaged in the programme and compares it with the Commission Autumn forecasts. The second part assesses the plausibility of the projections with an in-depth analysis of the individual contributors underlying the debt path. In the case of high debt countries the section also explores whether the ratio is diminishing at a sufficiently high pace as meant in the Treaty.

The section “*Structural reform, the quality of public finances and institutional features*” reflects the need to assess the nature and the budgetary impact of structural reforms presented in the programme. Moreover, the Commission evaluates the actions taken in terms of governance of public finances. The consistency of these measures with the broad economic policy guidelines in the area of public finances is then assessed.

In the section “*Sustainability of public finances*” the Commission assesses the sustainability of the public finances based on an overall judgment of the results of quantitative indicators and qualitative features. The long-term debt projections and sustainability indicators are calculated according to (i) a scenario in which it is assumed that the medium-term budgetary plans contained in the programme are achieved, and (ii) a scenario which assumes that the structural primary balance remains unchanged at the current level over the programme period. Within each scenario, the Commission calculates two “sustainability gaps” (e.g. the potential adjustment needed): (1) the constant permanent budgetary adjustment (relative to the current structural budgetary

¹⁹ Note that the Code of Conduct advises Member states to base the external assumptions on those in the Commission Autumn forecasts in order to promote comparability.

position) needed to have the intertemporal budget constraint hold until 2050 assuming debt hits the 60% GDP level at that moment (S1 indicator), or (2) the corresponding figure to ensure that the intertemporal government is fulfilled over an infinite horizon (S2 indicator). The underlying assumptions related to the indicators of long-run sustainability are the ones commonly agreed and used by the Economic Policy Committee (EPC) in the common projection exercise. An overall assessment is then made in relation to the risks associated with an ageing population and specific factors for the Member State concerned, including the role of structural reforms.

Finally, the MFA includes an Annex in which the compliance with the guidelines of the Code of Conduct in terms of date of submission, model structure, data provision and other information requirements is assessed. Other country-specific Annexes are included to back up the analysis carried out in the assessment of the individual programmes.

MFAs of the vintage 2006/2007

The structure of the MFAs for the vintage 2006/07 is comparable to the MFAs of the previous vintage. However, some modifications that have been introduced are addressed in this section. The most striking of these is the inclusion of a section on the common scene setter of this round – economic trends and policy challenges.

The “*Economic Trends and Policy Challenges*” section is divided into five parts. The first part provides a brief overview of the macroeconomic performance in terms of growth and other major macro-variables. It compares the average GDP growth of the country with that of the EU25 and the euro area. Factors supporting the economic growth in the country consideration are discussed. For example, in France, economic growth was supported by domestic demand, and especially by private consumption, which was the main driving force in the decade preceding 2006. In addition, French economic growth was limited by a significant drag from the external sector. The second part presents the results of a growth accounting exercise and tries to identify the main reasons for the average annual economic growth performance vis-à-vis the euro area. The growth accounting exercise is carried out on the basis of the commonly agreed method for the assessment of SCP. The third part looks at the volatility of growth and other key macroeconomic variables and the stabilising or destabilising role of macro-policies. The fourth part focuses on trends in public finances. This part assesses the trend of government deficit and composition of the fiscal consolidation over the last decade as well as the general government balance projections in successive SCP. Based on the picture outlined in the first four parts, the fifth and final part identifies major economic challenges and implications for public finances, normally in terms of fiscal consolidation, sustainability and efficiency.

The “*Macroeconomic Outlook*” section mirrors the “Economic outlook” of the 2005-06 vintage, but is more structured in clear sub-sections. The sub-sections include economic activity, potential growth and its determinants, labour market developments, costs and price developments, sectoral balances, and an assessment. The assessment is introduced for the first time. It looks at the plausibility of the macroeconomic scenario and economic good vs. bad times.

The “*General Government balance*” does not seem to differ fundamentally in terms of content, but more in terms of structure. This section presents first a part discussing budgetary implementation in the current year. This section further includes an analysis of the medium-term budgetary strategy in the new programme highlighting the main goals of the programme’s budgetary strategy, composition of the budgetary adjustment, and the MTO and the structural adjustment. Subsequently, an assessment of the risks attached to the targets and of the appropriateness of the fiscal stance and country’s position in relation to the budgetary objective of the SGP is carried out. The latter part also shows a table offering a summary assessment of compliance. This assessment is done in two stages: first, a preliminary assessment on the basis of the targets taken at face value and, second, the final assessment also taking into account risks.

The “*Government debt and long-term sustainability*” section combines the two sections of the previous assessments –“General government gross debt” and “Sustainability of public finances”. In particular, the part on “long-term projections and sustainability of public finances” is now more structured. Namely, a sub-section on the “Additional factors” is developed to take into account other relevant factors which help reaching a better overall assessment of the sustainability of the public finances and appreciation of the main risks to sustainability. This is followed by a final “Assessment”, in which concisely but clearly the main conclusions are drawn.

The section “*Structural reform, the quality of public finances and institutional features*” is similar in structure and content to the one of the early MFAs. This section contains a more in-depth assessment on the programmes on information on national fiscal frameworks and quality of public finances.

Finally, the last section provides an assessment on the “*Consistency with the national reforms programme and with the broad economic policy guidelines*”. In particular, first the Commission verifies whether the budgetary developments and fiscal policy strategy presented in the update are consistent with the National Reform Programme (NRP) and its Implementation Report NRP. Then, the Commission provides an overview of whether the strategy and policy measures in the programmes are consistent with the broad economic policy guidelines in the area of public finances issued in the context of the Lisbon strategy for growth and jobs.

Finally the MFA provides several Annexes including a glossary, summary table for the programme update, assessing whether the programme respects the requirements of the code of conduct on model structure, data provision and other information requirements, key economic indicators of past economic performance and an assessment of tax projections.

MFAs of the vintage 2007/2008

The structure of the MFAs in the vintage 2007/2008 is also very similar to that of the MFAs of the vintage 2005/2006. However, some innovations were introduced which should be analysed in connection to the Ecofin Council conclusions on the public finances in October 2006 and October 2007.

On 10 October 2006 the Council concluded that the Member states should provide relevant information on their national fiscal frameworks including on implementation and envisaged changes, and encouraged the Commission to continue to take these elements into account when preparing its assessment on the programmes. On that date, the Council also invited the Commission to develop further its analysis of the quality of finances, including the efficiency and composition of the public expenditure, and to provide an overview of the implementation of the existing fiscal rules based on the 2007 updates of the SCPs.

On 9 October 2007 the Council re-emphasized the importance of national fiscal rules and institutions, including monitoring mechanisms, in the attainment of sound budgetary positions. The Council also invited the Member States to report in their programmes information on national fiscal rules, and the Commission to develop its regular assessment of national fiscal policies by a more comprehensive analysis of the overall macroeconomic situation, including the building up of macroeconomic imbalances and their interactions with fiscal position. In addition, the Council invited the Commission to continue its work on the criteria and modalities for taking into account the resulting implicit liabilities in the definition of MTOs. Finally, the Council invited the Commission to step up their efforts to improve the analysis, methodology and the measurement of the quality of public finances, including the efficiency and effectiveness of public expenditure and revenue structure, as well as of major public sector reforms.

The more topical scene setter of this vintage of MFAs is the section “Key challenges for public finances, with a particular focus on public expenditure” for Italy, France and the UK, “Key challenges for public finances, with a particular focus on fiscal policy and overheating” for the Netherlands, and “Key challenges for public finances, with a particular focus on the reforms of fiscal governance” for Hungary. The country-specific nature of these sections reflects the need to address the heterogeneity in the fiscal and institutional features of the countries under surveillance. For instance, the focus on expenditure and the quality of public expenditure in the Italian MFA reflects the fact that Italian public spending has represented a source of budgetary slippages over the recent past and as a result deserves particular attention.

The “*Macroeconomic outlook*” section mirrors the “Economic outlook” of the vintage 2005-06. There is, however, a new Box “Good or bad economic times”, which is consistent with the requirement in the Code of Conduct to assess whether the economy is experiencing good or bad economic times. In this box, the Commission uses not only the output gap, but also other economic indicators, providing a more reliable picture of the country’s cyclical conditions. Moreover, in assessing the plausibility of the macroeconomic scenario, this section provides a more structured analysis of the “economic activity” and “labour markets and cost and price developments”. This is followed by a part describing the macroeconomic vulnerabilities and how they are expected to develop according to the programme. This seems to be in line with the Council conclusions in October 2007, which call for a more comprehensive analysis of the overall macroeconomic situation, including the building up of macroeconomic imbalances and their interactions with fiscal position.

The “*General Government balance*” does not seem to differ fundamentally in terms of content, but more in terms of structure. This section presents first a part discussing budgetary implementation in the current year. An interesting development is the inclusion of a systematic decomposition of the differences in revenue/expenditure/budget targets for the current-year projected outcomes into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. This more in-depth analysis is consistent with the Council conclusions of October 2006, in which the Commission was encouraged to continue to take these elements into account when preparing its assessment on the programmes. Moreover, this decomposition helps drawing a clearer picture of the factors underlying the budgetary slippages, enhancing the transparency and credibility of the budgetary process. Similar to the early updates, this section contains an analysis of the medium-term budgetary strategy in the new programme, followed by an assessment of the risks attached to the targets and of the appropriateness of the fiscal stance and country’s position in relation to the budgetary objective of the SGP. The latter part also shows a table offering a summary assessment of compliance. This assessment is done in two stages: first, a preliminary assessment on the basis of the targets taken at face value and, second, the final assessment also taking into account risks.

The following section titled “*Government debt and long-term sustainability*” is on the same lines as the MFAs of the last vintage. The part on “long-term projections and sustainability of public finances” still includes a sub-section on the “Additional factors”. This is followed by a final “Assessment”, in which concisely but clearly the main conclusions are drawn.

The section “*Structural reform, the quality of public finances and institutional features*” is similar in structure and content to the previous MFAs. However, consistent with the conclusions of the Council of 2006 and 2007 and the subsequent greater focus in the programmes on information on national fiscal frameworks and quality of public finances, this section contains a more in-depth assessment.

The last section on the “*Consistency with the national reforms programme and with the broad economic policy guidelines*” is also on the same lines as the previous MFAs. In particular, first the Commission verifies whether the budgetary developments and fiscal policy strategy presented in the update are consistent with the National Reform Programme (NRP) and its Implementation Report (IR-NRP) of October 2007. Then, the Commission provides an overview of whether the strategy and policy measures in the programmes are consistent with the broad economic policy guidelines in the area of public finances issued in the context of the Lisbon strategy for growth and jobs.

Finally, the MFAs present an Annex assessing whether the programme respects the requirements of the code of conduct on model structure, data provision and other information requirements.

MFAs of the latest vintage 2008/2009

All the MFAs start with a brief introduction providing information on the submission date of the update and whether or not the latter was adopted by (and discussed) in the Parliament. Then a new section “*Main challenges in the economic downturn and the policy response*” is provided. This was dictated by the need to assess the impact of the

sharp global economic downturn and the financial crisis hitting both external and domestic demand. In this connection, the country's announced stimulus or recovery packages to counter the economic downturn are outlined and assessed, taking into consideration individual vulnerabilities and characteristics of the country under examination.

This is followed by the sections on the "Macroeconomic scenario", "Budgetary strategy", "Debt developments and long-term sustainability", "Institutional features of public finances" and a final "Assessment" section. Although similar in content, each of these sections is more concise than the corresponding ones in the previous vintage.

The "*Macroeconomic scenario*" section mirrors the "Macroeconomic outlook" of the vintage 2007/2008. In particular, it provides a critical analysis of the macroeconomic developments and forecasts contained in the December 2008 Stability and Convergence Programmes in relation with the Commission services' January 2009 interim forecasts.

The "*Budgetary strategy*" section compares to the "General Government balance" of the previous vintage. First, it discusses budgetary implementation in 2008 with a close look at the decomposition of the deviations of the current-year projected outcomes from the revenue/expenditure/budget targets into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. This part is then followed by sub-section titled "Near-term budgetary strategy" in which the main budgetary measures for 2009 are outlined. Finally, the "Medium-term budgetary strategy" and "Risks to the budgetary targets" conclude this section. Their content is similar to the respective sub-sections of the previous MFAs.

The "Debt developments and long-term sustainability" is comparable to the "Government debt and long-term sustainability" of the vintage 2007-2008. In particular it consists of two sub-sections: (i) "Debt developments", which compares and assesses the debt dynamics of the programme in relation to the Commission services' January 2009 interim forecasts, and (ii) "Long-term sustainability", which analyzes long-term age-related expenditure projections, sustainability indicators with the required primary balance, long-term projections for the government debt ratio, and additional factors which help reaching a better overall assessment of the sustainability of public finances and appreciation of the main risks to sustainability.

The section "*Institutional features of public finances*" is very similar in content and structure to the "Structural reform, the quality of public finances and institutional features" section of the previous MFAs.

Finally, an overall "Assessment" concludes the main body of the MFAs. Here, the Commission assesses the budgetary strategy, taking into consideration risks, in the light of (i) the adequacy of the recovery package in response to the Commission Communication of 26 November 2008 on the European Economic Recovery Plan (EERP) as endorsed by the European Council in December 2008; (ii) the criteria for short-term action laid down in the above mentioned Commission Communication; and (iii) the objectives of the Stability and Growth Pact.

Similarly to the previous vintage, this round of MFAs contains a more topical scene setter which is provided by Annex 1. This detailed section is fully dedicated to a country-specific special topic. For Hungary, the latter is “The role of structural reforms in Hungary’s fiscal adjustment programme”; for the Netherlands it is “Efficiency of budgetary rules”; for Italy “Taxation and the labour market”; for the United Kingdom “The economic and fiscal significance of the UK housing market” and for France “Taxation and the minimum wage in France: impact on unemployment”. Each of these special Annexes reflects the need to address the heterogeneity in the fiscal and institutional features of the countries under surveillance, and the importance of individual aspects in assessing the fiscal stance of the underlying country. For instance, the special section on the economic and fiscal significance of the British housing market is worth mentioning. It is well understood that housing market activity has a relatively more important economic impact on residential investment, turnover-related goods and services expenditure and private consumption (via collateral and wealth effects). Moreover, fiscal exposure (through taxes on housing wealth, property transactions, and financial sector’s profits) to a housing market downturn relatively significant in the UK. Generally speaking, these country-specific Annexes are very informative and constitute a fundamental building block in a more-in-depth assessment of the programmes submitted by each Member State.

Finally, the MFAs include an Annex 2, which displays additional tables and figures backing the analysis of the assessment, and an Annex 3, which assesses the compliance of the programmes with the Code of Conduct.

4.2.3 Benchmarking with IMF Article IV Country Report

As described in more detail in the previous chapter, the mandate of the IMF is to oversee the international monetary system and monitor the economic and financial policies of its member countries. IMF staff monitors members’ economies on a continuous basis, and (usually) once a year visits member countries to exchange views with the government and central bank with the focus to assess the risks to domestic and external stability that argue for adjustments in economic or financial policies. The mission submits a report to the IMF’s Executive Board for discussion. The Board’s conclusions on the report are then transmitted to the country’s authorities.

While the scope of the IMF Article IV Country Report is broader than the MFAs of the Commission, nevertheless it is informative to assess its content to identify potential areas in which the Commission could make its budgetary surveillance activities more effective. However, in terms of structure and content, the IMF reports differ from country to country and from year to year. Therefore, it is not possible to provide a typical benchmark. Another important aspect that complicates a direct comparison with the MFAs is that the Article IV analysis is contained in one report while the European Commission introduces a split between the analysis in the MFA and the advice contained in the Recommendation for the Council opinion on the updated SCPs.

From a brief desk-study of some IMF reports, however, some common patterns can be identified. For instance, the IMF systematically pays particular attention to a number of indicators that are used as inputs in the assessment of the risks to domestic and external

stability. In particular, the report documents a number of vulnerability indicators related to: (i) external position (e.g. exports, imports, terms of trade, current account, foreign assets and liabilities of the financial sector, real exchange rates, real unit labour costs, etc); (ii) financial and credit market (e.g. T-bill yields, spreads, stock market index, real estate prices, credit to private sector and to non-financial enterprises, etc); (iii) financial and banking sector risks (capital adequacy, asset quality, profitability, liquidity and sensitivity to market – interest rate and exchange rate – risks). While those vulnerability indicators are not directly required for the fiscal assessment that the Commission makes, they nevertheless point to potential future adverse economic developments that might endanger fulfilment of the fiscal criteria in the future. Hence, similar assessments of vulnerability might be considered in future development of the MFAs.

As far as the public finances are concerned, the IMF Reports occasionally include more in-depth analysis of the structure and riskiness of the public debt (e.g., 2005 and 2006 Reports on Hungary). Some of this information may be more relevant for pre-ins than for euro-area countries, for example, the share of foreign currency denominated debt. In addition, the structure and riskiness of assets and liabilities is also analysed for the financial sector, the corporate sector and the household sector. This allows assessing the vulnerability of the economy to shocks. For example, a particularly high indebtedness of the household sector makes demand (and, hence, also public sector revenues) vulnerable to interest rate shocks. The reports also show some stress test scenarios for the public debt, for example relating to alternative growth assumptions, policy (adjustment) assumptions and real interest rates. In the case of Hungary, also the debt dynamics following a depreciation are explored. Such tests are useful in highlighting the sensitivity of baseline scenarios. As for the vulnerability indicators, the structure and riskiness associated with the balances of the various sectors of economy are not directly necessary for the Commission's assessments. However, these factors may be relevant for a country's future economic circumstances (for some countries more than for others), which suggests that some more in-depth analysis of these factors could be considered in the further development of the MFAs.

The IMF Reports sometimes discuss other issues, when relevant. One is fiscal transparency (2005 Report on Italy, published February 2006; 2006 Report on Italy, published January 2007). This concerns for example the timely availability of key budget documents, unexplained gaps between cash and accrual deficits and the ex-ante scrutiny of the budget process, which suffers from a complex approval process and fails to provide a clear picture of the government's finances due to fragmentation into different documents using different aggregations and accounting methods. This observation points to the importance of scrutinising budgetary transparency of Member States and pointing out where improvements can be made. Future MFAs could consider fiscal transparency as a specific topic, when warranted. Deficits hidden by a lack of transparency undermine the long-run financial solidity of the public sector and will eventually make it harder to achieve the MTOs. Occasional explicit attention to fiscal transparency in the MFAs should help to induce governments to take this issue sufficiently seriously.

The IMF Reports emphasise the need for “fundamental expenditure controls”, possibly through reforms such as credible corporate restructuring to accompany reductions in transfers to state enterprises. Other areas concern the public administration and its system

of wage bargaining and the tightness of budget constraints on local authorities. Explicit consideration of the scope (and incentives) for subnational authorities to pass deficits on to the central government may deserve attention also in the future development of the MFAs. Of course, the importance of the issue differs across countries, as EU countries feature widely-differing subnational government structures.

The 2007 IMF Report on France (published February 2008) focuses on challenges and options for tax reform. Aspects covered are distortions, complexity and the high headline rates for many taxes. In many instances broadening of the tax base (corporate income tax, personal income tax and VAT) and simplification (person income tax and income support system) are warranted. Broadening of the base obviously allows reduction in rates without losing income. The more general conclusion is that this analysis points to the usefulness of scrutinising tax systems of the Member States, in particular those in which the tax burden and headline tax rates are high. Also in this regard, future MFAs could play a useful role, pointing to the potential benefits of tax reform in achieving MTOs in a way that avoids as much as possible distortions to the rest of the economy.

4.2.4 Assessment of MFAs – soundness

The soundness of the MFAs of the Commission will be assessed on the basis of the following two criteria: (i) consistency of the structure/content with respect to the legal and institutional framework; (ii) soundness/quality of the analysis. The latter criterion will look at quality in terms of data sources, interpretation of the data and policy conclusions.

Consistency with the legal and institutional framework

The structure and content of the analysis contained in the MFAs is consistent with the fiscal surveillance aspects contained in the legal framework. In particular, the Commission assesses (i) the plausibility of economic assumptions of the programme are plausible; (ii) whether the medium-term budgetary objective (MTO) and its adjustment path towards it are appropriate; (iii) whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the MTO over the cycle; (iv) whether the economic policies of the Member State in question are in line with the broad economic policy guidelines; (v) the evolution of the debt ratio and the outlook for the long-term sustainability of the public finances.

Quality of the analysis

Overall assessment

Overall, the quality of the analysis is high. The coverage is broad and comprehensive, building up from an assessment of the overall outlook, followed by an analysis of the government's balance, debt and long-run sustainability with a view towards the rising ageing costs.²⁰ Rightly the analysis emphasises the role of structural reforms and individual countries' institutional adjustments towards enhancing fiscal discipline. Those

²⁰ Purely in terms of length, the MFAs of the 2008/09 round are shorter than the previous rounds. However, this more concise approach does not seem to have affected the overall quality of the assessments.

issues should remain at the top of the policy agenda in many countries. In assessing the quality of the analysis, it is important to realise that, compared with the IMF's Article IV reports, the MFAs are produced under severe time constraints as a horizontal exercise. This obviously imposes practical limitations on the scope of the analysis.

Beyond the scope of the individual MFAs, the current crisis would provide an opportunity to investigate what frameworks or budgetary rules would be most suitable to withstand large negative shocks. While most countries now exceed the 3% deficit limit, there are substantial differences among them and it is far from clear that those differences can be attributed only to external developments hitting one country harder than the other country.

Progressive broadening

Over time, progress has been made through a gradually richer and more nuanced analysis of macro and fiscal developments. In this respect since the 2006/07 round, a year-by-year evolution of specific scene setters can be identified.

Whereas in the vintage 2005/06 no scene setter can be identified because the main focus was on properly implementing the new provisions of the revised SGP based on the country-specific MTOs, in the 2006/07 round the common scene setter is the chapter on economic trends with a growth-accounting exercise followed by a comprehensive presentation of the key challenges for public finances.

The subsequent vintage 2007/08 contains a topical scene setter which is based on the country-specific key challenges for public finances. The country-specific nature of these chapters reflected the need to address the heterogeneity in the fiscal and institutional features of the countries under surveillance, and, as a result, represented a very useful step. Similarly to the previous vintage, the latest round of MFAs 2008/09 provides a topical scene setter in Annex 1. This detailed section is fully dedicated to a country-specific special topic.

All in all, it is fair to conclude that progressive broadening of SCP assessments have lead to an even higher quality of the analysis produced in these documents. More specifically, the topical scene setters of the last two rounds show a clear understanding from the Commission of the role of country-specific features for a more balanced assessment of the SCP updates.

Specific remarks

Below we provide some suggestions with the aim of further improving the technical analysis and the efficiency of the surveillance process.

- A key aspect of the preventive arm of the SGP is the credibility of the adjustment path towards the MTO. In this regard, key ingredients are the presence of plausible macroeconomic and, in particular, growth assumptions. The plausibility of the output projections in the SCPs and the MFAs could be subject to further scrutiny by taking account of external balance and financial market indicators, an approach commonly followed in the IMF country reports. This might allow a more comprehensive evaluation of the reliability of the macroeconomic projections envisaged in the

updates. In addition, there would be merit in analysing the possible common risks to both sets of projections. Finally, it might be useful to provide a systematic account of the past performance of fiscal authorities in projecting the macroeconomic scenario in relation to the other Member States.

- Similarly, consistent with the Council recommendation on enhancing the fiscal credibility of the adjustment path and the accountability of the fiscal authorities of the Member States, the Commission could provide (i) an account of the risks associated with external imbalances and financial market developments, and (ii) an extended assessment of the sources of the deviations from budgetary plans based on all data available from the previous updates and on a comparison with the (past) performance of the other Member States. The “Budgetary strategy” section already contains a decomposition of the deviations of the current-year projected outcomes from the revenue/expenditure/budget targets into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. However, in view of the expanding number of vintages becoming available the decomposition could be put to a more systematic scrutiny to look more explicitly for common patterns over time and across countries in the sources of the deviations from targets. The expanding data set would even allow for an econometric analysis in the spirit of Beetsma et al. (2009) of the driving forces behind the components of the decomposition. While such an analysis would probably be beyond the scope of individual MFAs, it might well fit into the Public Finance Report. Individual MFAs can then use the results of the broader analysis as a reference for discussing the decompositions for individual countries and for giving advice on how to close potential gaps between targets and outcomes.
- A proper risk assessment of the sustainability of debt may benefit from a more in-depth analysis of the structure and riskiness of the gross public debt in terms of maturity (fixed versus floating rate obligations), structure and share of assets in percent of total liabilities, foreign currency denomination of assets and liabilities in percent of total liabilities. Such an analysis might be of particular use for identifying vulnerabilities in crisis situations like the current one. Under the current circumstances in which financial markets are very risk averse, countries that have to roll over large amounts of debt (often countries with financing at short maturities) or that are outside the euro-area but have large euro-denominated liabilities are at particular risk. An obstacle to this kind of analysis is the potential lack of detailed data on the structure of the public debt, as these data have so far not been requested from the Member States. A more in-depth analysis along these lines might also be a topic for a separate study (or for a chapter in the Public Finance Report). Nevertheless, some assessment along the lines discussed here might be included in individual MFAs, in particular when there are reasons to start worrying about the structure of the public debt.
- Beyond the analysis of the public debt, future rounds of MFAs may want to assess risks associated with contingent liabilities (such as guarantees supporting the interbank market and deposit insurance) created by the governments’ interference with their financial sectors. Those risks have become more important than before. The availability of relevant data for a full assessment in this direction, however, represents an objective complication.

- In general, the comparability and cross-country consistency of the data should be balanced with the need to take into account country-specific features of the budget of the Member States. For instance, as appreciated in the MFAs, gas revenues are an important component of the Dutch government balance. As a result, commonly agreed measures of the structural and cyclically-adjusted government balance for the Netherlands are imperfect measures to evaluate the fiscal effort towards the MTO. A systematic account of “robust” measures which correct for gas revenues might be informative in the specific case of the Netherlands. Other countries may be subject to similar particularities (e.g., the UK as an oil producer) and some assessment of the adequacy of an MTO based on the structural government balance might be desirable in the case of individual countries.

4.3 Corrective Arm: the Excessive Deficit Procedure

4.3.1 Introduction

This section evaluates the soundness of the budgetary surveillance outputs (e.g. reports, opinions and recommendations) of DG ECFIN within the legal framework of the excessive deficit procedure (EDP), which is based on Council Regulation (EC) No 1467/97, amended with Council Regulation (EC) No 1056/2005. The aim of this Regulation is to clarify and speed up the excessive deficit procedure provided for in Article 104 of the Treaty establishing the European Community (EC Treaty).

In the following sections, we explore the three cases in which the EDP was both activated *and* abrogated *within* the time (2005-2009) and country (France, Germany, Italy, the U.K., the Netherlands and Portugal) samples under examination in this Report. On the basis of this criterion, the EDPs of Italy (2005-2008), the UK (2005-2007) and Portugal (2005-2008) are assessed.

Table 4.1 provides an overview of the outputs produced by the Commission in relation to these cases. It can be seen that the sample consists of relatively simple EDPs in the sense that, after the Council recommendations on when and how to correct the excessive deficit, a positive assessment after the 6 month- deadline for taking action was adopted, followed by eventually the abrogation of the EDP.

Table 4.1 Reports, opinions and recommendations under the EDPs of Italy, the UK and Portugal

Country	Report from the Commission prepared in accordance with Article 104(3) of the Treaty. Accompanied by Commission Technical Document	Commission Opinion on the existence of an excessive deficit under Article 104(5)	Recommendation for a Council decision on the existence of an excessive deficit prepared in accordance with Article 104(6)	Recommendation for a Council recommendation to Member State with the view of bringing the situation of excessive deficit to an end in accordance with Article 104(7)	Communication from Commission to Council. Assessment of Actions taken in response to Council Recommendation in accordance with Article 104(7)	Recommendation for a Council Decision abrogating decision on the existence of excessive deficit according to Article 104(12)
Italy	7-6-2005	29-6-2005	29-6-2005	29-6-2005	22-2-2006	7-5-2008
UK	21-9-2005	11-1-2006	11-1-2006	11-1-2006	20-9-2006	22-9-2007
Portugal	22-6-2005	20-7-2005	20-9-2005	20-9-2005	22-6-2006	7-5-2008

In the following sections, first, the EDPs of Italy, the UK and Portugal are summarized. This is followed by an assessment of the Commission outputs.

4.3.2 The Excessive Deficit Procedure of Italy (2005-2008)

On 7 June 2005 the Commission prepared a report in accordance with Article 104(3) on the Treaty. The report was accompanied by a detailed technical document produced by the Commission Services. The latter document provided a careful analysis of macroeconomic and fiscal developments and prospects, an examination of the quality of Italian public finance statistics which seemed to have been characterized by large statistical revisions in the past, and, in accordance with Article 104(3) of the Treaty, detailed information on the medium-term economic and budgetary position in Italy as well as other factors relevant for the purpose of the report.

The Report was motivated by the release of new fiscal figures by ISTAT that were subsequently validated by Eurostat, which provided *prima facie* evidence on the existence of an excessive deficit in 2003 and 2004. After establishing that the excess over the 3% reference value was not exceptional, nor temporary, and that the debt-to-GDP ratio was clearly above the reference value of the Treaty, the Commission suggested that both the deficit and debt criteria were not fulfilled. In accordance with the Ecofin Report of 20 March 2005 (preparing the 2005 reform of the SGP), the Commission Report considered three subsections: (i) medium-term economic position, (ii) medium-term budgetary position and (iii) other relevant factors for a more comprehensive qualitative assessment of the excessive deficit. As for the medium-term economic position, the Commission concluded that the economic prospects (based on cyclical conditions and potential growth) were expected to remain subdued. Moreover it was concluded that the recent labour market and pension reforms had had no direct budgetary costs. Under the

subsection concerning the medium term budgetary position, the Commission reported (i) a general government deficit consistently exceeding public investment since 2001, (ii) a high structural deficit indicating a lack of fiscal consolidation above all during the “good times” 2000-2001, (iii) stable expenditure on education and R&D, (iv) the reliance on temporary one-off measures, and (v) risks to the long-term sustainability of public finances, in particular taking into account the risk of increasing interest rates. The Commission concluded the report with other relevant factors. The latter went from the past budgetary slippages and disappointing effects of initiatives aimed at controlling expenditure to problems in statistical governance and an inefficient process leading to the adoption of the budget law. All in all, the Report provided solid arguments proving that both the deficit and debt criteria were not fulfilled, and that the consideration of other relevant factors reinforced these conclusions.

In accordance with Article 104(4), on 17 June 2005 the Economic and Financial Committee formulated an opinion which confirmed the assessment of the Commission Report.

On 29 June 2005, the Commission formulated an opinion to be addressed to the Council (in accordance with Article 104(5)) and a recommendation for a Council decision on the existence of an excessive deficit procedure (in accordance with Article 104(6)). In addition, on the same date, the Commission submitted to the Council a recommendation for a Council recommendation to be addressed to Italy with a view to bringing the situation of an excessive deficit to an end, in accordance with Article 104(7) of the Treaty.

According to the Council Regulation (EC) no 1467/97 and the 20 March 2005 Ecofin Report, “the Council recommendation should establish a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances”. In its recommendation for a Council recommendation, the Commission concluded that on the basis of recent economic data showing a significant worsening of GDP growth and the size of the required budgetary adjustment, *special circumstances* appeared to exist and an extension of the deadline for the correction of the excessive deficit to 2007 seemed warranted. The recommendation included also some *specific actions* to be taken to achieve a credible adjustment path. In accordance with Article 104(7), on 28 July 2005 a Council Recommendation was issued to Italy. In particular, the Council established a deadline of 12 January 2006 for Italy to take effective action.

In accordance with Article 9(3) of Council Regulation 1467/97, as amended by the Council Regulation 1056/2005, following the expiry of the deadline for a Member State, the Commission issued a communication to the Council, outlining and assessing the actions taken by Italy in response to the Council recommendations, and concluding that Italy had taken actions consistent with such recommendations and that no further steps in the excessive deficit procedure of Italy were needed at that stage.

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated, following a Commission recommendation, when the excessive deficit has been corrected. On 7 May 2008 the Commission issued a recommendation for a

Council decision to abrogate the EDP of Italy. The recommendation was backed up by the latest outcomes and projections of the total deficit and cyclically-adjusted deficit. In addition, the Commission concluded that the debt reduction in 2006-2007 was in line with the correction of the excessive deficit, although the reduction was expected to slow down in 2008 and 2009. All in all, the Commission recommended the Council to abrogate its decision on the existence of an excessive deficit in Italy. On 3 June 2008 the Council adopted this decision.

4.3.3 The Excessive Deficit Procedure of the United Kingdom (2005-2007)

On 21 September 2005 the Commission adopted a report in accordance with Article 104(3) on the Treaty. The report was accompanied by a detailed technical document produced by the Commission Services, which provided a careful analysis of the medium-term economic and budgetary position in the UK and an examination of other relevant factors put forward by the Member State and by the Commission for the purpose of the report.

The Report was motivated by the release of EDP data notified by the British authorities in August 2005, which provided *prima facie* evidence on the existence of an excessive deficit in the financial year (running from April to March) 2004-2005.²¹ In fact figures of the time showed that also in the financial year 2003-2004 the deficit was above the reference value. Given that financial year data are used by the UK authorities, while the Commission data are based on a calendar year basis, the report referred to both calendar and financial year data.

First the Report established that the excess over the 3% reference value was not exceptional nor temporary, suggesting that the deficit criterion was not fulfilled. The debt criterion, on the other hand, was consistently fulfilled. In accordance with the directives of Article 104(3) of the Treaty, the Report considered four subsections: (i) medium-term economic position, (ii) medium-term budgetary position and (iii) other factors considered relevant by the UK authorities, and (iv) other factors considered relevant by the Commission. As for the medium-term economic position, on the basis of the Commission Services' spring forecast, the Commission concluded that the economic prospects (based on cyclical conditions and potential growth) were expected to weaken. Moreover it was added that, while none of the reform efforts on competition, innovation and labour markets appeared to have had a significant budgetary impact in the short run, the long-run impact was likely to be positive. Under the subsection "Medium term budgetary position", the Commission reported (i) a significant loosening of the structural fiscal position since 2000 (covering a period of good and bad times), (ii) a deficit ratio exceeding the government investment ratio from 2002 onwards, (iii) an increased expenditure on education and healthcare and (iv) a relatively favourable position with regard to long-term sustainability of public finances. The Commission concluded the Report with the two subsections on the relevant factors. Amongst the one communicated by the UK authorities, it was emphasized the redirection to growth-enhancing items of

²¹ The Report refers not only to calendar year data, but also to financial year data, because in the case of the UK the EDP is based on financial year data.

current expenditure, and a huge increase in UK contributions to international aid and debt relief in 2004-2005. All in all, the Report provided convincing arguments proving that the deficit criterion was not fulfilled, but that the other relevant factors seemed to be relatively favourable.

In accordance with Article 104(4), on 30 September 2005 the Economic and Financial Committee formulated an opinion which confirmed the assessment of the Commission report, but nevertheless recommended that further steps under the EDP should await the finalization of the Commission's Autumn 2005 forecasts.

On 11 January 2006, the Commission formulated an opinion to be addressed to the Council (in accordance with Article 104(5)) and a recommendation for a Council decision on the existence of an excessive deficit procedure (in accordance with Article 104(6)). The Commission documented the Autumn 2005 forecasts and confirmed the assessment made in the Report, suggesting that the excess over 3% of GDP reference value was neither exceptional nor temporary. Taking also into account the announced fiscal measures in the December 2005 Pre-Budget Report, the Commission was of the opinion that an excessive deficit existed in the United Kingdom, and recommended the Council to decide accordingly, in conformity with Article 104(6).

In addition, on the same date, the Commission submitted to the Council a recommendation for a Council recommendation to be addressed to the United Kingdom with a view to bringing the situation of an excessive deficit to an end, in accordance with Article 104(7) of the Treaty.

According to the Council Regulation (EC) no 1467/97 and the 20 March 2005 Ecofin Report, "the Council recommendation should establish a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless are special circumstances". In its recommendation for a Council recommendation, the Commission concluded that the overall growth performance was reasonably satisfactory and that the required structural improvement was modest. As a result, special circumstances appeared not to exist and the deadline for the correction of the excessive deficit was set for the financial year 2006-2007.

On 24 January 2006, consistently with the Commission recommendations and in accordance with Article 104(7), the Council addressed a recommendation to the UK, with the view of bringing an end to the situation of an excessive government deficit. In particular, the Council established a deadline of 24 July 2006 for the UK to take effective actions to this end.

In accordance with Article 9(3) of Council Regulation 1467/97, as amended by the Council Regulation 1056/2005, following the expiry of the deadline for a Member State, the Commission adopted a communication to the Council, assessing the actions taken by the UK in response to the Council recommendations, and concluding that the United Kingdom seemed to be just on track to correct its excessive deficit by the financial year 2006-2007, in line with the Council recommendations under Article 104(7). Overall, the Commission considered that no further steps in the excessive deficit procedure of the UK were needed at that stage. The Council concurred with this view, but consistently with the

Commission conclusions in the communication, confirmed its intention to continue to closely monitor budgetary developments in the UK.

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated, following a Commission recommendation, when the excessive deficit has been corrected. On 23 September 2007, the Commission adopted a recommendation for a Council decision to abrogate the EDP of the UK. Such a recommendation was backed up by a supplementary notification submitted by the British government in July 2007 and the Commission services' spring 2007 forecasts. In addition, the Commission concluded that the debt rose but remained well below the 60% reference value. All in all, the Commission recommended the Council to abrogate its decision on the existence of an excessive deficit in the United Kingdom. On 9 October 2007 the Council adopted this decision.

4.3.4 The Excessive Deficit Procedure of Portugal (2005-2008)

On 22 June 2005 the Commission prepared a report in accordance with Article 104(3) of the Treaty. The report was accompanied by a detailed technical document produced by the Commission Services.

The Report was motivated by the release of the update of the Stability Programme on 9 June 2005 covering the period 2005-2009. This update projected a general government deficit in excess of the 3% of GDP reference value for the years 2005 to 2007. In particular, the Portuguese government planned to have a government deficit of 6.2% of GDP in 2005, 4.8% in 2006 and 3.9% in 2007. At the same time, the debt-to-GDP ratio was projected to grow from 61.9% of GDP in 2004 to a peak of 67.8% in 2007.

After establishing that the deficit overshoot of the 3% of GDP reference value was not exceptional nor temporary, and that the debt-to-GDP ratio was clearly above the reference value of the Treaty, the Commission suggested that the both the deficit and debt criteria were not fulfilled. In accordance with the Ecofin Report of 20 March 2005, the Commission Report contained three subsections: (i) "medium-term economic position", (ii) "medium-term budgetary position" and (iii) "other relevant factors" for a more comprehensive qualitative assessment of the deficit overshoot.

As for the medium-term economic position, the Commission concluded that the economic prospects (based on cyclical conditions and potential growth) were expected to remain subdued, and that the output gap was expected to persist around negative values. Moreover, it was acknowledged that in the preceding years Portugal had launched a program of structural reforms, but that at the moment it was difficult to assess the impact of these reforms on potential growth and the public finances. Under the subsection "medium term budgetary position", the Commission reported (i) a general government deficit not exceeding public investment since 2001, but exceeding it once accounting for one-off measures, a situation which was expected to continue also in 2005 and 2006; (ii) a high structural deficit and a lack of fiscal consolidation above all during the "good times" 2000-2001; (iii) growing public expenditure on education (Portugal was mentioned as one of the countries with the highest shares in the EU); (iv) the reliance on

temporary one-off measures; and (v) risks to the long-term sustainability of public finances, due to the projected budgetary costs of the aging population. The Commission concluded the Report with “other relevant factors”. The latter emphasized: (i) the systematically overoptimistic assumptions about GDP growth, which caused budgetary slippages until 2004, (ii) the under-budgeting of public expenditure, (iii) the lack of a fast-track control mechanism to deal with deviations from the planned budgets, (iv) the need for greater effort in the compilation of statistics. All in all, the Report provided strong arguments for the existence of an Excessive Deficit and concluded that the consideration of the other relevant factors reinforced these conclusions.

In accordance with Article 104(4), the Economic and Financial Committee formulated an opinion which confirmed the assessment of the Commission Report.

On 20 July 2005, the Commission formulated an opinion to be addressed to the Council (in accordance with Article 104(5)) and a recommendation for a Council decision on the existence of an Excessive Deficit (in accordance with Article 104(6)). In addition, on the same date, the Commission submitted to the Council a recommendation for a Council recommendation to be addressed to Portugal with a view to bringing the situation of an Excessive Deficit to an end, in accordance with Article 104(7) of the Treaty.

According to the Council Regulation (EC) no 1467/97 and the 20 March 2005 Ecofin Report, “the Council recommendation should establish a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances”. In its recommendation for a Council recommendation, the Commission concluded that on the basis of the cyclical weakness in Portugal and the size of the required adjustment to bring the deficit below 3% of GDP, *special circumstances* appeared to exist and an extension of the deadline for the correction of the Excessive Deficit by 2008 seemed warranted. The recommendation included also some *specific actions* to be taken to ensure a rigorous implementation of the announced corrective measures. These comprised a sustained and marked correction of the structural deficit and a rapid implementation of reforms to contain and reduce expenditure. In accordance with Article 104(7), on 20 September 2005 a Council recommendation was issued to Portugal. In particular, the Council established a deadline of 19 March 2006 for Portugal to take effective action.

In accordance with article 9(3) of Council Regulation 1467/97, as amended by the Council Regulation 1056/2005, following the expiry of the 6-month deadline for taking action set in the Council recommendation, the Commission carried out an assessment of the action taken by Portugal with a view to bringing the situation of the Excessive Deficit to an end. The Commission communication concluded that Portugal had taken actions consistent with the recommendation and that no further steps in the EDP were needed.

According to Article 104(12), a Council decision on the existence of an Excessive Deficit is to be abrogated, following a Commission recommendation, when the Excessive Deficit has been corrected. On May 7 2008 the Commission issued a recommendation for a Council decision to abrogate the EDP of Portugal, one year before the deadline set by the Council. The recommendation was backed up by the latest estimates of the deficit, which had declined significantly from 6.1% of GDP in 2005 to 2.6% of GDP in 2007, below the

3% of GDP reference value, and the deficit projections contained in the Commission services' spring 2008 forecast. All in all, the Commission recommended the Council to abrogate its decision on the existence of an Excessive Deficit in Portugal. On 3 June 2008 the Council adopted this decision.

4.3.5 Assessment of EDP outputs produced by the Commission

The soundness of the EDPs reports, opinions and recommendations of the Commission will be assessed on the basis of the following two criteria: (i) consistency of the structure/content with respect to the legal and institutional framework; (ii) soundness/quality of the analysis. The latter criterion will look at quality in terms of data sources, interpretation of the data and conclusions.

Consistency with legal and institutional framework

The reports adopted in accordance with Article 104(3) covered whether the excess over the reference value was only exceptional and temporary and whether the ratio remained close to the reference value. Moreover, the report took into account whether the government deficit exceeded government investment expenditure and whether other factors were relevant. The report was also accompanied by a detailed technical document prepared by the Commission services which provided a more-in-depth analysis of the legal aspects to be covered.

In its recommendation for a Council recommendation, the Commission evaluated the conditions under which *special circumstances* appeared / did not appear to exist for an extension of the deadline for the correction of the excessive deficit.

In the communication to the Council, the Commission assessed the actions taken by the Member State. Finally, when the excessive deficit in the Member State was corrected, the Commission adopted a recommendation for a Council decision to abrogate the EDP.

Overall, one can conclude that in terms of structure/content, the Commission operated fully consistent with the legal framework.

Quality of analysis - General assessment

Overall the analysis in the EDP outputs over the entire EDP trajectories appears to be of high quality and adequate in its coverage. The more technical parts of the analysis generally take into account all relevant factors in a well-balanced way, while conclusions are drawn in a consistent way. In particular, as regards the decision to abrogate countries' EDPs, the Treaty leaves discretion that is filled by assessing whether the correction is based on the absence of one-off measures and, more importantly, whether it fulfils the requirement that based on the Commission forecasts the deficit remains below 3% under a no-policy change scenario. This way the essential objective of the durability of the correction is met. Of course, the overall judgment of the quality of the outputs is more difficult than for the MFAs, because unlike in the case of the MFAs there exists no comparable benchmark from other organisations.

Remarks on individual reports

Commission Reports on Italy, UK and Portugal

The Commission Reports in all three cases provided solid arguments proving that either the deficit or both the deficit and debt criteria were not fulfilled, and that the consideration of other relevant factors reinforced these conclusions. Due to strict internal length constraints, these reports are very concise and do not provide a fully-detailed discussion of the main arguments leading to these conclusions. However, the accompanying Technical Documents produced by the Commission Services contain significant additional information which convincingly backs up the main conclusions of the Reports.

More specifically on the individual reports, in discussing structural reforms of the UK, it would have been useful to provide figures for labour market participation, because the lower productivity level may well result from higher participation (low-productivity individuals that would have been jobless in other countries, might be employed in the UK, thereby driving down average productivity).

The report for Portugal provides a discussion on public investment. Here it is remarked that the general government deficit had not exceeded government investment since 2001, followed by a remark, however, that the latter had been exceeded by the deficit when one-off measures were excluded. The discussion here could have included some forward-looking elements. In particular, a comparison between the projected deficits for coming years and projected public investments for coming year shows that the latter is rather substantially exceeded by the former, thereby enforcing the position that public investment is not a reason to provide leniency as regards to the conclusion of a violation of the deficit criterion.

Communication from Commission to Council on UK from 22 February 2006

In its conclusions the Communication says “Since no further deficit-reducing discretionary action was taken following the January Council recommendation besides the implementation of a small correction envisaged by the December PBR, and the UK authorities rely on favourable fiscal trends to reduce the deficit to the reference value by 2006/7, there is ...” It is not clear whether this means that the UK has taken effective action. In view of the conclusion that “no further steps in the excessive deficit procedure are needed at present...” it seems the Commission’s conclusion is yes, while in fact no action of substance has been undertaken.

Recommendation for a Council recommendation on Portugal from 20 July 2005

The recommendation (item (11)) asks for correction of the structural deficit that in combination with the growth projections being fulfilled would lead to a deficit ratio of just below 3% in 2008. It seems that no safety margin is built into the recommendation that might guard against not achieving the “just below 3% in 2008”. The question is whether it would be desirable from an economic perspective to have recommendations

that are a bit “conservative” and assure a higher chance of achieving an elimination of the excessive deficit.²²

4.4 The Public Finance Report – Evolving budgetary surveillance (Part II)

4.4.1 Introduction

This section reviews Part II of the Public Finance Reports (PFRs) over the periods 2005 – 2008. First, the main elements of the various Parts II are reviewed. Then, the soundness of the analysis is discussed.

4.4.2 Main elements of Part II of the PFRs

Part II of the *2005 Report* provides a retrospective overview of plans, outcomes and assessments over the period 1998-2005. This is done with respect to overall balances, as well as with respect to its components. Here, attention is paid to unexpected changes in economic growth. Further, stock-flow adjustments (discrepancies between deficits and debt accumulation), and their components are analysed. The report also explores the role of national fiscal institutions (e.g. degree of centralization of budgetary process) on budgetary outcomes and pays specific attention to expenditure rules as institutional ways to address the main source of deviation from plans, which is generally that actual spending exceeds planned spending. Finally, there is also specific attention to the role of over-optimism in growth forecasts on fiscal outcomes, and a plea for having official forecasts done by independent institutions. The report suggests that deficit biases, overoptimistic budgetary projections, creative accounting and one-off measures may all be linked to underlying institutional weaknesses. The report also summarizes activities in the context of sustainability analysis, which has received a prominent place in the revised SGP.

The *2006 Report* addresses again the revision of the SGP, discussing in detail the legislative changes to the preventive arm and the corrective arm and the revised Code of Conduct. It then turns to discuss how to operate the two arms. Because the revised SGP increases the number of factors to be taken into account in budgetary surveillance, the chapter in the 2006 report also addresses statistical issues, in particular regarding (1) the identification of temporary influences on the budget and (2) the cyclical adjustment of budget deficits. In this latter connection the estimation of the new values of the budgetary sensitivities and the updated minimal benchmarks is discussed. Finally, there is an update of the sustainability analysis, also in relation to the new set of age-related expenditure projections of the Member States. The analysis emphasizes the three-pronged strategy in dealing with the future ageing costs: achieving and sustaining sound budgetary positions and running down debt at a faster pace, raising employment rates, and structural reforms of the pension, healthcare and long-term care systems.

²² From a legal perspective this is more complex as the Commission is restricted by the legal provisions in the Treaty and SGP.

The *2007 Report* deals with enhancing the effectiveness of the preventive arm of the SGP along a number of lines: (1) strengthening the link between the SCPs and national budgetary plans, (2) a stronger role for the mid-term budgetary review in the euro area, and (3) putting the assessment of the SCPs into a broader economic perspective. It then moves on to discussing statistical issues, showing how methodological updating changes output gap estimates and cyclically-adjusted balances. Also the construction of the minimum benchmarks is further illustrated. Next, advancements in long-term sustainability are discussed with emphasis on the planned new Sustainability Report, followed by a review of budgetary procedures in the EU in order to take stock of the quality and effectiveness of the current arrangements in a majority of the Member States

The *2008 Report* focuses explicitly on the quality of public finances. This concept comprises the composition of spending, national fiscal governance and structural reforms aimed at improving sustainability of the public finances. The shift in attention to the quality of the public finances is motivated on several grounds. With progress to the medium-term objectives, easy adjustment becomes more difficult and further improvements become more and more intertwined with the issue of quality. Second, with the expected increase in ageing costs, effective use of resources is becoming more important. Third, there is increasing national pressure on governments to deliver value for money. Finally, intensifying global competition creates a need for fiscal policy geared towards adaptability of economies to shocks. This report also presents a follow up on the measurement and assessment of fiscal developments, in particular the estimation of the structural budget balance, emphasizing the uncertainty related to the assessment of cyclical conditions in real time and the substantial fluctuations in the tax content of economic growth. As regards the former, there is an increasing amount of research (also from academia) showing that the differences between real-time and revised data can be substantial. As regards the tax content of growth, there is increasing evidence that tax elasticities are varying and may in particular increase above normal during upturns, giving false signals to governments that they can afford expansion.

4.4.3 Quality of the analysis

The scope of fiscal surveillance has widened substantially in recent years. Moreover, budgetary surveillance has gradually shifted attention more towards the preventive arm of the Pact and the quality of public finances. As regards the former, the focus is more on progress towards sustainable budgetary positions in the medium run. The operation of the preventive arm naturally reflects the evolving insight (in particular, also from academia) that cyclically-adjusted or structural budgetary positions are better indicators of fiscal discipline and sustainability of the public finances than actual budgets. The reports pay due attention also to the complications that this involves, namely that policy becomes based on variables that are no longer directly observed. The increased attention to the quality of public finances is also to be welcomed, although one should be careful not to detract attention from the importance of assessing overall fiscal balances, as recent events have also made plain.

While the various reports cover different topics from year to year, there would be some merit in repeating some of the exercises. This is, in particular, the case of the

decomposition of fiscal outcomes into original plans and deviations from those plans. Each year additional data become available and it seems that by now there is scope for doing a more formal econometric analysis of the sources of systematic biases both in the overall budget and in the components of budget (in particular, spending). One could also more systematically investigate how biases are related to the projection horizon in the SCPs. It would also be useful to explore whether revised (final) macroeconomic and budgetary figures differ systematically from real-time assessments of the current cyclical situation and, even in cases when there are no systematic biases, to explore how large the deviations tend to be. This may have important policy implications as more uncertainty about current conditions would generally point to the optimality of more prudent (fiscally conservative) policies.

A specific remark concerns the quality of the public finance composite indicator (Table II.1.3 in PFR 2008). While it does indeed capture important elements of quality, some more motivation for its composition might be given. As regards to the inclusion of the size of the government, reference might be made to the earlier finding that the size of the government tends to have a negative effect on growth. Further, because the indicator “education spending efficiency” is based on a relative score, there will always be countries that do better or worse than others, so that a general (cross-country) progress to higher quality could be missed.

4.5 The Sustainability Report

4.5.1 Introduction

Only one Sustainability Report (2006) has been published over the period under investigation.²³ First, the main content of the Report is reviewed. Then the soundness of the analysis is evaluated.

4.5.2 Main elements of the Report

The Sustainability Report in particular investigates the sustainability of the public finances in relation to the future ageing problem and its associated costs. These costs concern those of paying out more pensions, extra health care and long-term care expenditures, as well as the ageing related effects on unemployment benefits and education costs. Demographic projections for the Member States are based on reports of the Economic Policy Committee and European Commission.²⁴ Projections for public pension spending were provided by the Member States themselves, while projections for the other ageing-related expenditures came from common models developed by the European Commission.

²³ A second report was produced in autumn 2009 and, as a result, not covered by the period under review.

²⁴ Economic Policy Committee and European Commission (2006a), *The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States of Pensions, Health-Care, Long-Term Care, Education and Unemployment Transfers (2004-2050)*, *European Economy, Special Reports*, No.1; and Economic Policy Committee and European Commission (2006b), *The Impact of Ageing on Public Expenditure: Projections for the EU25 Member States of Pensions, Health-Care, Long-Term Care, Education and Unemployment Transfers (2004-2050) – ANNEX*, *European Economy, Special Reports*, No.1.

The potential adjustment need is summarized by the “sustainability gap”, the constant permanent budgetary adjustment (relative to the current structural budgetary position) needed to have the intertemporal budget constraint hold until 2050 assuming debt hits the 60% GDP level at that moment (S1 indicator), or the corresponding figure to ensure that the intertemporal government is fulfilled over infinite horizon (S2 indicator). The indicators are separated into a component due to the initial budgetary position, i.e. the gap between the structural primary balance and the long-term debt-stabilizing primary balance (the primary balance that if reached and maintained stabilizes debt at its current long-run level), which is a number that depends on future GDP growth rates and interest rates, and a component that captures the impact of the rise in age-related spending (the long-term change in the budgetary position).²⁵ For the S1 indicator there is an additional component, namely the constant adjustment to the structural primary balance that moves the debt ratio from the current level to 60% of GDP in 2050.

A number of sensitivity analyses are conducted, such as sensitivity to demographic and macroeconomic assumptions (labour productivity growth, employment rate, interest rate and life expectancy), sensitivity regarding the main drivers of items such as healthcare and long-term care, and sensitivity regarding the impact of medium-term budgetary analysis (in particular, the impact of Member States reaching their MTOs). Further, the role of qualitative factors is studied, such as debt dynamics, (political) risks to pension expenditures, stock-flow adjustments and contingent liabilities.

4.5.3 Quality of the analysis

General part

The sustainability gap indicator is a useful indicator to measure the extra overall effort needed to make the budget sustainable. It makes no assumptions on specific behaviour of the private or public sector. There are many possible combinations of changes in tax revenues and government spending that can in principle close the gap, and countries should be free to choose the politically preferred combination. Further, the indicator allows making explicit the cost of postponing of budgetary adjustment. The sensitivity exercises cover the main factors determining the sustainability gap indicator. Yet, some observations are warranted. First, the consequences of higher employment of older workers (page 38 of the report) are calculated under the assumption that those workers accumulate more pension rights. It might be useful though to explore also exercises in which the build up of pension rights is slowed down with an increase in life expectancy (such that the same rights are only accumulated at a higher age). Second, the Report explores sensitivity in response to a higher interest rate, giving the impression that the upward risk is highest. However, with the likely future rise in capital-labour ratios, the opposite scenario is also likely and some more emphasis on this possibility would be warranted.

²⁵ The former component gives a specific number by which the entire projected path of structural primary balances will be adjusted. However, for most countries this will not be enough for intertemporal balance, because the adjusted path for the structural primary balance would be falling due to the increasing ageing cost. This would require a further constant adjustment of the structural primary balance according to the second component.

The sensitivity analyses serve a useful role in making governments aware of worse-than-expected developments. However, there are no likelihoods attached to various alternative scenarios. Ideally, one would see stochastic simulations taking the various uncertainties into account. Obviously, this is not easily implemented and, hence, may still be quite a long way off. Nevertheless, to give one example: an above-baseline increase in employment produces higher GDP growth and at the same time a smaller fall in the interest rate (as capital-labour ratios will increase by less). Stochastic simulation takes into account that these events are most likely to occur jointly and thus also attaches a likelihood to a given adjustment need.

The analysis pays a lot of attention to initial gross public debt (as an indicator of the need to adjust) and the development of the gross debt. The recent forced public interventions in the banking sector have in some instances had a substantial positive effect on the gross debt. However, this is counterbalanced by an increase in public assets (at least to the extent governments have paid a fair price for their stakes). Hence, basing adjustment need on gross debt may in some instances lead to a too pessimistic picture. More explicit attention to public assets in the sustainability assessments might be generally desirable, especially at the current moment and for the pending update of the Report. The issue is to some extent addressed in 2005 Public Finance Report (pages 136/7).

The Report repeatedly, and correctly, emphasizes the need to increase employment, in particular that of the older worker. Importantly, not only incentives need to be given to employees to work longer, also appropriate incentives need to be given to employers to employ older workers longer. This might be achieved by more investment in human capital during working life and changes in the wage structure (to reduce the cost of older workers). This would deserve discussion in further work on sustainability.

The Report does not address intergenerational equity. This would require information on the distribution of social benefits, public spending and taxes to different age cohorts in the past and in the future. Such information is hard to obtain. In addition, the calculations make certain assumptions, such as a unit elasticity of health care demand with respect to income. Therefore, it is difficult to take a stand on intergenerational equity. Moreover, the distribution of costs and benefits of ageing is a matter of political preference in the Member States. Nevertheless, it might be insightful to provide some information on how long various cohorts are expected to make use of ageing related spending (in particular, pensions and health/long-term care) and report some alternative time paths of structural budgetary adjustment that does some justice to the different length of retirement periods and different life expectations of different cohorts.

Country-specific assessment

While briefly addressed in the general part, no mention is made of the effects of potential migration flows in response to the increasing need for workers. Although any discussion of this is speculative, the issue is however being debated and it is hard to imagine governments to remain completely unresponsive to pressures from employers when the available domestic workforce shrinks. It might be useful to develop alternative scenarios reflecting different assumptions about immigration flows.

In the case of Italy the long-run projected increase in healthcare spending is below the EU average, while the old-age dependency ratio is projected to rise considerably more than average in the EU. These projections seem a bit hard to reconcile. Part of the explanation may have to do with the fact that health care projections are based on a common methodology, while this is not the case for pension projections (although these are done on the basis of some common external assumptions). Some attention to the consequences of differences in methodology in projections across countries would generally be welcome.

It will generally be useful to explore the role of idiosyncratic factors for the sustainability of individual countries, even when this is covered by other Commission outputs. For example, the Netherlands is expected to face a slowly increasing deterioration of the structural budget due to depleting natural gas reserves in the longer-run. In this regard it might then be relevant to ask whether the current gas revenues are used in a way that promotes fiscal sustainability. A phenomenon that might affect countries in rather specific ways are the costs of climate change. For example, countries with parts below the sea level or with dry parts could face larger costs to adapt to climate change.

4.6 Conclusions

This chapter has analysed the third question to be addressed in the evaluation:

“Are the outputs based on sound analysis and to what extent has the progressive broadening of the scope of budgetary surveillance contributed to improving the quality (soundness) of budgetary surveillance?”

With regard to the preventive arm of the SGP, the analysis focussed on five countries: France, Hungary, Italy, The Netherlands and the UK. With respect to the corrective arm the analysis focussed on the EDPs for Italy, Portugal and the UK. The progressive broadening of the scope of budgetary surveillance has been investigated *only* for the Commission assessments of the Stability and Convergence Programs.

Conclusions with regard to the preventive arm

Conclusions concerning structure and contents

- The precise content of the MFAs is very similar across countries, but differs across vintages.
- The structure of the MFAs for the vintage 2006/07 is comparable to the MFAs of the previous vintage. However, some modifications that have been introduced. The most striking change is the inclusion of a section on the common scene setter of this round – economic trends and policy challenges.
- The structure of the MFAs in the vintage 2007/2008 is also very similar to that of the MFAs of the vintage 2005/2006. The more topical scene setter of this vintage of MFAs is the section “Key challenges for public finances, with a particular focus on public expenditure” for Italy, France and the UK, “Key challenges for public finances, with a particular focus on fiscal policy and overheating” for the Netherlands, and “Key

challenges for public finances, with a particular focus on the reforms of fiscal governance” for Hungary.

The section “*General Government balance*” includes a systematic decomposition of the differences in revenue/expenditure/budget targets for the current-year projected outcomes into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. This decomposition helps drawing a clearer picture of the factors underlying the budgetary slippages.

- With regard to the MFAs of the latest vintage 2008/2009, all the MFAs start with a brief introduction providing information on the submission date of the update and whether or not the latter was adopted by (and discussed) in the Parliament. Then a new section “*Main challenges in the economic downturn and the policy response*” is provided. Similarly to the previous vintage, this round of MFAs contains a more topical scene setter which is provided by Annex 1 and which is fully dedicated to a country-specific special topic. These Annexes are very informative and constitute a fundamental building block in a more-in-depth macro-fiscal assessment.

Conclusions with regard to benchmarking with IMF Article IV Country Reports

- The IMF systematically pays particular attention to a number of indicators that are used as inputs in the assessment of the risks to domestic and external stability, so-called vulnerability indicators. These indicators are related to: (i) external position; (ii) financial and credit market; (iii) financial and banking sector risks.
- With regard to the public finances, the IMF Reports occasionally include more in-depth analysis of the structure and riskiness of the public debt, as well as the structure and riskiness of assets and liabilities for the financial sector, the corporate sector and the household sector. This allows assessing the vulnerability of the economy to shocks. The reports also show some stress test scenarios for the public debt.
- The IMF reports also address other relevant issues, such as fiscal transparency, the need for “fundamental expenditure controls”, public administration and its system of wage bargaining, and the tightness of budget constraints on local authorities and challenges and options for tax reform.

Assessment of MFAs – soundness

The soundness of the MFAs of the Commission has been assessed on the basis of: (i) consistency of the structure/content with respect to the legal and institutional framework; (ii) soundness/quality of the analysis. The latter criterion looked at quality in terms of data sources, interpretation of the data and policy conclusions.

The structure and content of the analysis contained in the MFAs is consistent with the fiscal surveillance aspects contained in the legal framework.

Overall, the quality of the analysis is high. The coverage is broad and comprehensive, building up from an assessment of the overall outlook, followed by an analysis of the government’s balance, debt and long-run sustainability with a view towards the rising ageing costs. The analysis emphasises the role of structural reforms and individual countries’ institutional adjustments towards enhancing fiscal discipline.

Progressive broadening

Over time, progress has been made through a gradually richer and more nuanced analysis of macro and fiscal developments. In this respect since the 2006/07 round, a year-by-year evolution of specific scene setters can be identified as described above. The progressive broadening of SCP assessments has led to an even higher quality of the analysis produced in these documents. The topical scene setters of the last two rounds show a clear understanding from the Commission of the role of country-specific features for a more balanced assessment of the SCP updates.

Conclusions with regard to the corrective arm

The soundness of the EDPs reports, opinions and recommendations of the Commission have been assessed on the basis of the same two criteria.

Conclusions concerning structure and contents with respect to the legal and institutional framework

In terms of structure/content, the Commission operated fully consistent with the legal framework.

- The reports adopted in accordance with Article 104(3) covered whether the excess over the reference value was only exceptional and temporary and whether the ratio remained close to the reference value. Moreover, the report took into account whether the government deficit exceeded government investment expenditure and whether other factors were relevant. The report was also accompanied by a detailed technical document prepared by the Commission services which provided a more-in-depth analysis of the legal aspects to be covered.
- In its recommendation for a Council recommendation, the Commission evaluated the conditions under which *special circumstances* appeared / did not appear to exist for an extension of the deadline for the correction of the excessive deficit.
- In the communication to the Council, the Commission assessed the actions taken by the Member State. Finally, when the excessive deficit in the Member State was corrected, the Commission adopted a recommendation for a Council decision to abrogate the EDP.

Assessment of EDP outputs - Soundness

Overall the analysis in the EDP outputs over the entire EDP trajectories appears to be of high quality and adequate in its coverage. The more technical parts of the analysis generally take into account all relevant factors in a well-balanced way, while conclusions are drawn in a consistent way. The overall judgment of the quality of the outputs is more difficult than for the MFAs, because unlike in the case of the MFAs there exists no comparable benchmark from other organisations, like the IMF.

Conclusions with regard to the Public Finance Report

With regard to the relevant chapter in the Public Finance Report, the scope of fiscal surveillance has widened substantially in recent years. Moreover, budgetary surveillance has gradually shifted attention more towards the preventive arm of the Pact and the quality of public finances. As regards the former, the focus is more on progress towards sustainable budgetary positions in the medium run. The increased attention to the quality of public finances is also to be welcomed.

Conclusions with regard to the Sustainability Report

Only one Sustainability Report (2006) has been published over the period under investigation. The Report investigates the sustainability of the public finances in relation to the future ageing problem and its associated costs. The potential adjustment need is summarized by the “sustainability gap”, the constant permanent budgetary adjustment (relative to the current structural budgetary position) needed to have the intertemporal budget constraint hold until 2050 assuming debt hits the 60% GDP level at that moment (S1 indicator), or the corresponding figure to ensure that the intertemporal government is fulfilled over infinite horizon (S2 indicator). A number of sensitivity analyses are conducted. Further, the role of qualitative factors is studied, such as debt dynamics, (political) risks to pension expenditures, stock-flow adjustments and contingent liabilities.

With regard to the quality of the analysis, the sustainability gap indicator is a useful indicator to measure the extra overall effort needed to make the budget sustainable. It makes no assumptions on specific behaviour of the private or public sector. The indicator allows making explicit the cost of postponing of budgetary adjustment. The sensitivity exercises cover the main factors determining the sustainability gap indicator. The chapter presents a number of additional observations and country-specific remarks, which will come back in chapter 7 when summarising in more detail the conclusions and discussing general and specific recommendations.

5 Relevance

5.1 Introduction

This section addresses the fourth evaluation question *whether the budgetary surveillance outputs produced by DG ECFIN are considered relevant by policy makers / politicians in the Member States*. More specifically, it analyses the extent to which the outputs have been used as inputs for policy formulation in the Member States.

The subsequent paragraphs first describe the approach used in answering the evaluation question. Second, we present findings from the analysis. Finally, we draw conclusions.

5.2 Activities undertaken

As a proxy for policy formulation we use the extent to which the fiscal surveillance activities have affected the policy debate in the public domain, both within and outside the political arena. Below the sources of information, which were used, are described.

Desk Study

The first source of information was a desk study. This exercise gave us an idea of the country specific situation, for instance: what was the starting position of the country? Did an EDP apply between 2005-2008? Did a country receive a lot of policy invitations? This information was used to group the Member States in order to analyse the answers to the questions in the online questionnaire.

Initially, we tried also to assess the extent to which and in what form the outputs have led to concrete policy implementation in the Member States. But, because the outputs of the Commission (and the Council) do not structurally analyse the extent to which the Council's policy invitations lead to policy implementations, it was not possible to draw robust conclusions (see text below).

Policy Implementation

In an attempt to assess the influence of budgetary surveillance on policy implementation we first performed a desk study comparing the recommendations made by the Council and the policy actions that have been taken in the respective Member States. The desk study was based on all Council opinions since 2005, national policy documents from the Ministries of Finance in the Member States, and Country specific documents from the IMF and OECD.²⁶ Second, we approached the Alternates of

²⁶ In particular the IMF Article IV consultation reports and the OECD country surveys.

the EFC (staff of the Ministries of Finance of the Member States) and asked them to indicate specific policy actions resulting from the Council's invitations and recommendations.

Both attempts did not lead to robust results because the Council (and the Commission) do not structurally report back on the extent to which invitations and recommendations lead to policy implementations. Also the other sources (response of the AEFC, the national policy documents, and the IMF and OECD documents) did not allow us to identify robust relations between policy actions and the Commission's work. This does not mean that such relationship does not exist.

Nevertheless, the desk study and the response by the AEFC did allow us to form a general idea on the extent to which the Commission's outputs 'lived' in the Member States and, as such, supported the analysis on *policy formulation*.

Online questionnaire

The second source of information was an online questionnaire sent to academics, consultants, students, civil servants, politicians and journalists in the Member States. Invitations to fill out the questionnaire have been sent via the mailing list of DG ECFIN. The online questionnaire requested people to indicate the extent to which the Commission's work led to a public debate (in national parliament, the media and academic publications) in Member States.

Interviews and survey among civil servants

Furthermore, we have addressed the issue on relevance in interviews with desk officers within DG ECFIN. The issue was also addressed in a survey sent to Ministries of Finance in the Member States and during subsequent (telephone) interviews with staff of these Ministries.

5.3 Findings

5.3.1 Desk study: grouping of countries

The desk study resulted in a grouping of Member States as follows:

Countries that were in an EDP during 2005 and 2008:

Cyprus, Czech Republic, France, Germany, Greece, Hungary, Italy, Malta, Poland, Portugal, Slovakia, and the United Kingdom.²⁷

Large countries:

Germany, Spain, France, Italy, Poland, and the United Kingdom.

Countries with a bad starting position (public debt equal or higher than 100% of GDP)

Belgium, Greece, and Italy.

²⁷ The Netherlands is not included because the EDP was abrogated during the summer of 2005.

Countries that are part of the Euro area

Austria, Belgium, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, and Spain, as well as Slovenia (since 1-1-2007), Malta and Cyprus (since 1-1-2008), and Slovakia (since 1-1-2009).

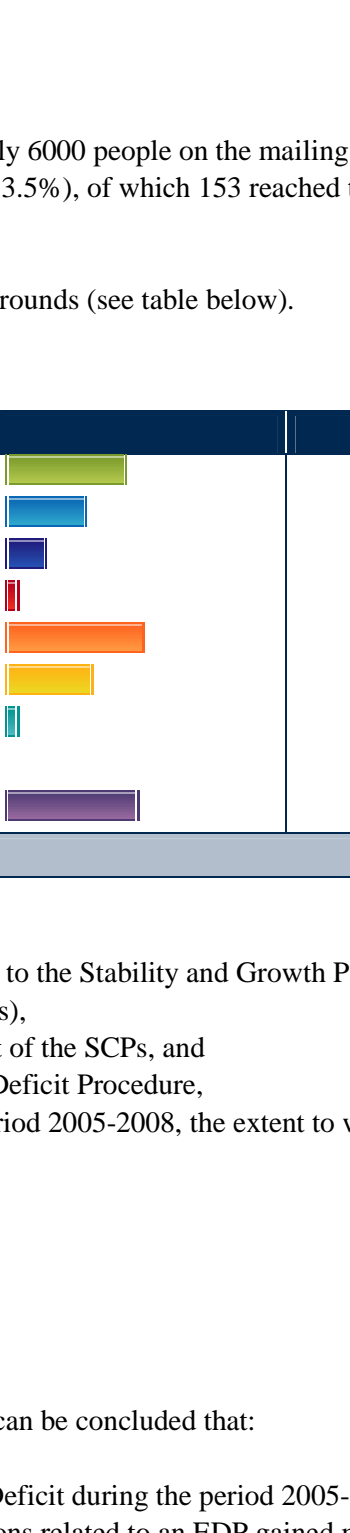
5.3.2 Online questionnaire

Responses

The online questionnaire was sent to approximately 6000 people on the mailing list of DG ECFIN. In total 212 people responded (about 3.5%), of which 153 reached the end of the questionnaire.

The respondents had different occupational backgrounds (see table below).

Table 5.1 Occupational background of respondents

Occupations	Number		Percent
Academic	43		20%
Consultant	28		13%
Journalist	13		6%
Student	2		1%
Civil servant in a Member State	49		23%
EU civil servant	29		14%
Politician in a Member State	2		1%
EU Politician	0		0%
Other*	46		22%

* Mainly bankers, central bankers and economists

Questions

For the following categories of documents related to the Stability and Growth Pact:

- Stability and Convergence Programmes (SCPs),
 - Commission outputs related to the assessment of the SCPs, and
 - Commission outputs related to an Excessive Deficit Procedure,
- the respondents were asked to indicate, for the period 2005-2008, the extent to which these have led to discussions in:
- national parliament;
 - daily news and/or news paper articles;
 - televised public affairs programmes; and
 - academic publications.

Findings

From the responses to the online questionnaire it can be concluded that:

- In Member States that were in an Excessive Deficit during the period 2005-2008, the Commission's outputs and the Council Opinions related to an EDP gained most

attention in the public debate (as compared to the other documents related to fiscal surveillance).

- The Stability and Convergence Programmes seem to gain more attention in the public debate than the Commission’s assessments of the SCPs and the related Council opinions.
- The extent to which the SCPs, the Commission’s assessments and the Council’s opinions are a topic of public debate and this is larger in Member States:
 - that were in an Excessive Deficit;
 - that were in a bad starting position (public debt equal to or higher than 100% of GDP);
 - that were part of the Euro area in 2005;
 - comprising the EU15.
 In these cases, the SCPs still receive more attention than the Commission’s outputs.
- There is no significant difference between Large and Small Member States.

Responses

The above findings are based on the tables below.

Table 5.2 From 2005-2008, to what extent did the application of an excessive deficit procedure (including the recommendations from the Commission and/or decisions of the Council) affect discussions in:

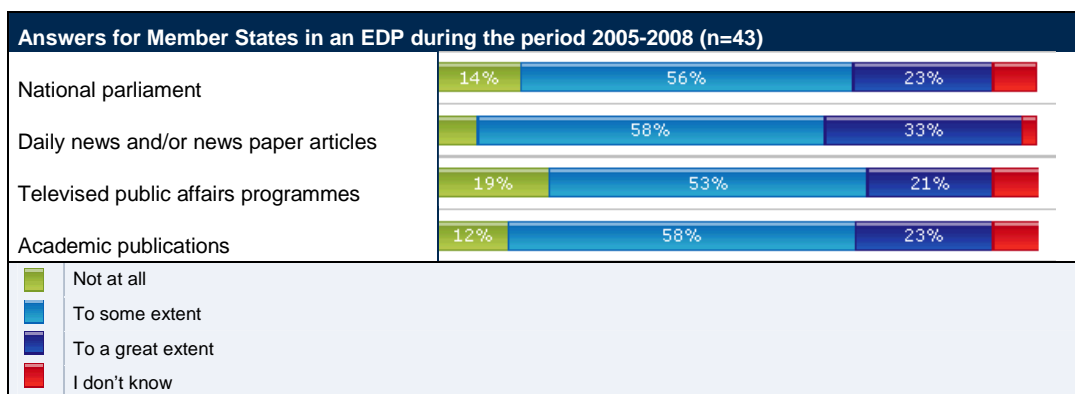


Table 5.3 From 2005-2008, to what extent were the yearly updates of the stability or convergence programmes for your country discussed in:

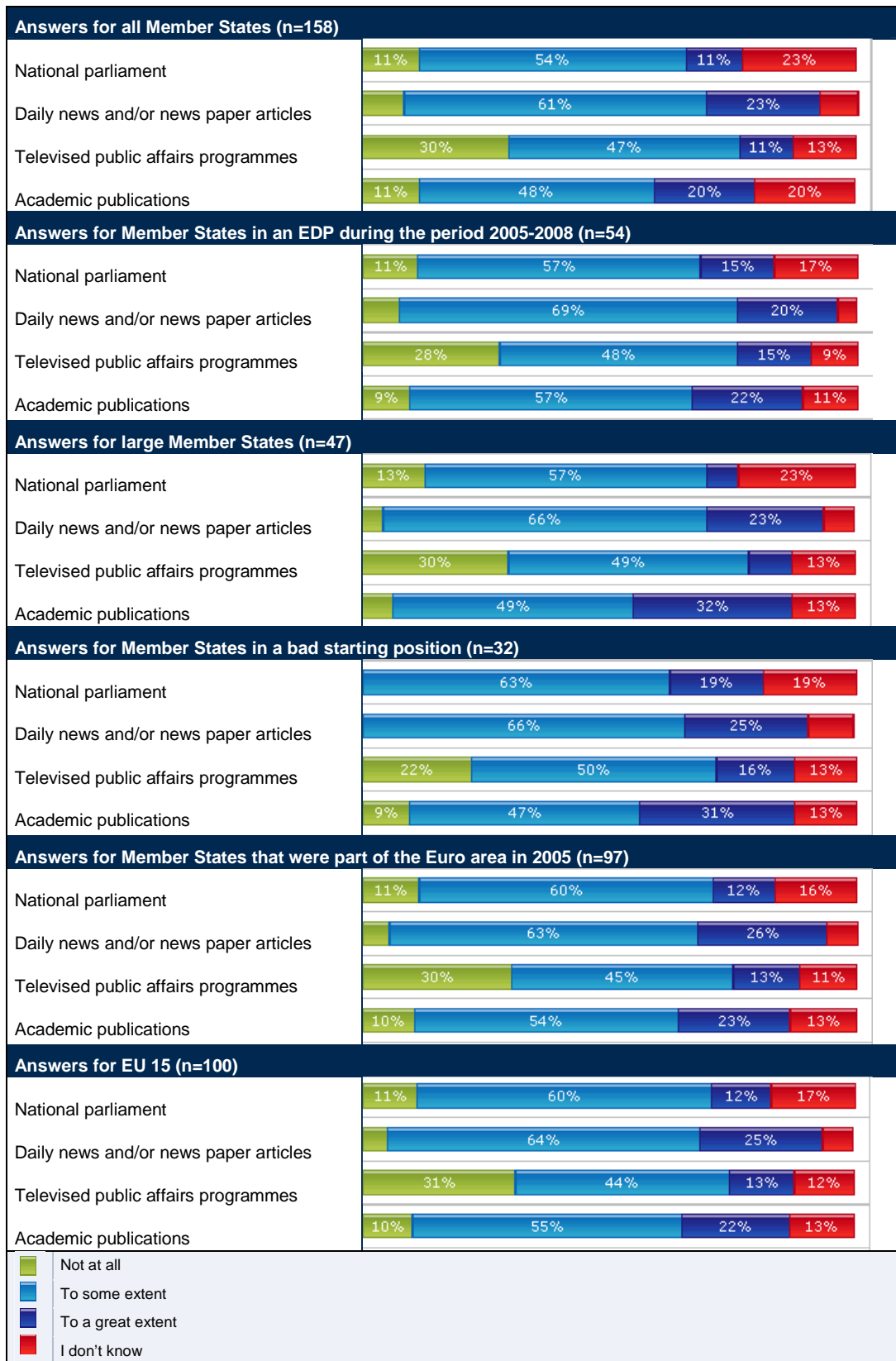
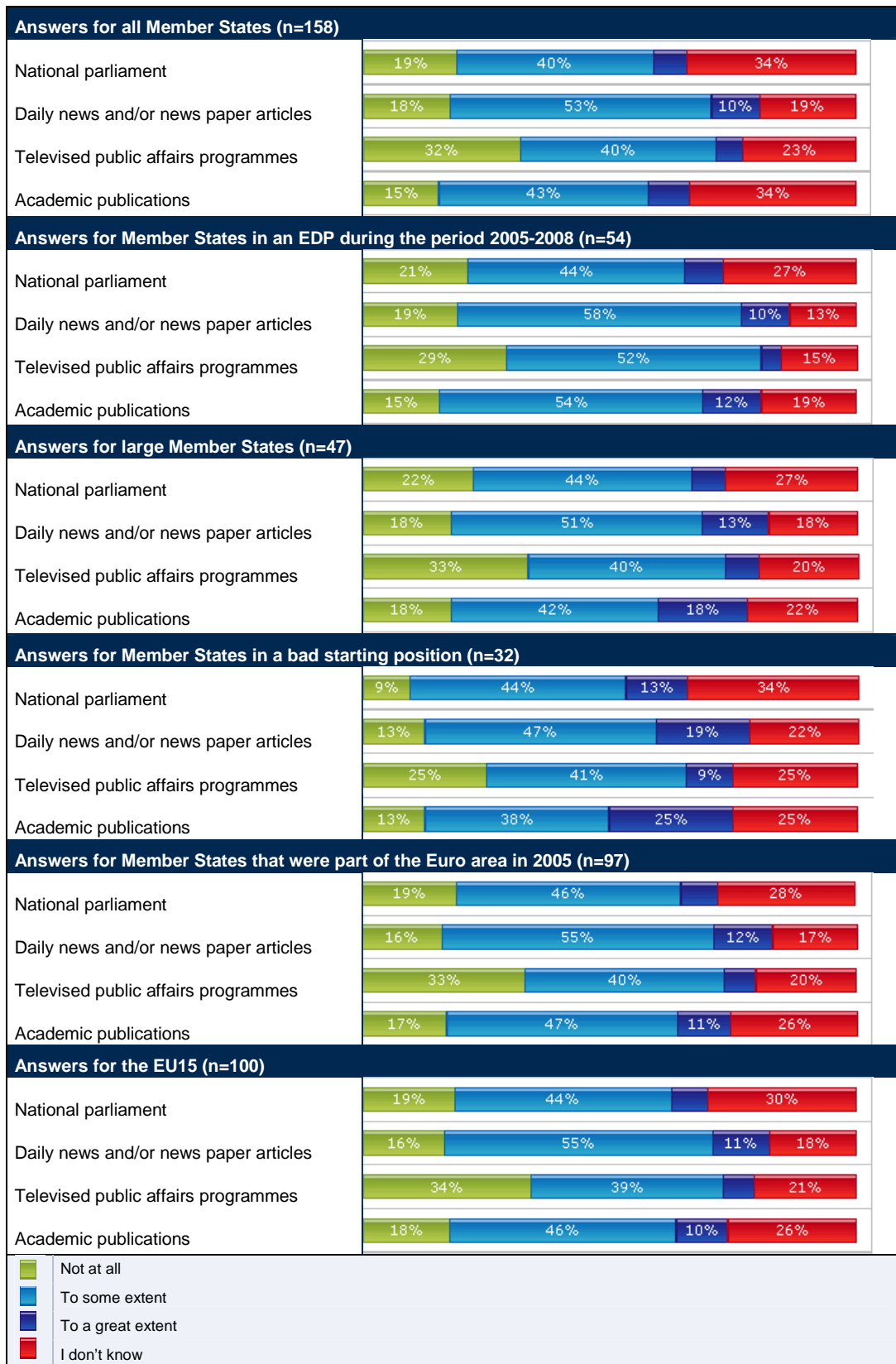


Table 5.4 From 2005-2008, to what extent were the yearly macro-fiscal assessments of the SCPs and/or the Council's decisions based on these assessments discussed in:



Additional comments on the Commission's fiscal surveillance activities.

The final question in the questionnaire was an open question to provide additional comments on the Commission's fiscal surveillance activities. Below a selection of responses is presented:

- “[The Commission’s work] has a big influence on budgetary policy and is a very important source of external pressure. While it may not surface very often in the media or Parliamentary debate, the Government is very conscious of its responsibility under EMU.” – Irish Civil Servant
- “Not only here in Spain but in Mediterranean countries in general the activities have led to an increased attention in the public and the media.” – Spanish Journalist
- “I believe that the Commission should communicate (e.g. explain) more and better its activities, concerns and suggestions. I believe that such communication would help governments e.g. to adopt more rational and less populist policies and pass difficult messages. There is large scope for improvement regarding the effectiveness of communication to the public, the ordinary people. Of course, the Commission should remain absolutely fair (e.g. among small and big countries) and impartial.” – EU civil servant
- “Excellent analysis, good policy judgement.” – ECB employee
- “Lack of communication from ECFIN in parallel to Commissioner's comments. For example, with the crisis the general opinion was that the SGP was dead and ECFIN did not say anything for targeting about such a misunderstanding. Commissioner did but inside his own communication strategy and insufficiently.” – EU civil servant
- “Tougher language could help; the Commissioner may review progress - or missing progress - once a month before the press, best two days before an ECOFIN meeting.” – Consultant

5.3.3 Interviews

Panel

We have organised interviews with staff from DG ECFIN (in particular with desk officers and deputy Heads of Unit) and with staff from the Ministries of Finance in the Member States. In total we spoke with nine staff members from DG ECFIN and ten staff members of several Ministries of Finance who responded to our request to provide information.

Questions

To structure the discussion with DG ECFIN staff, the interviews started on the basis of the following questions:

- To what extent are the results of surveillance activities effectively channelled into policy debate in the Member State?
- What was the media coverage on the surveillance activities?
- Did these debates also lead to policy implementation in the Member States?

- Do you consider your work having an effect on the policies in the Member States?
- Have the above issues changed over time?
- What are areas for improvement according to your personal opinion?

To structure the discussion with the staff from the Ministries of Finance a brief questionnaire was sent asking to indicate specifically which policy actions were responding to a specific Council invitation. Most respondents indicated that it was very hard to identify a direct relation between Council opinions and policy actions. This did not, however, mean that the Commission's work was considered less relevant. On the contrary, many respondents indicated that they considered the work of the Commission to be highly relevant for national policy making. Subsequently additional interviews were conducted in which respondents were asked to clarify the question: how the work of the Commission affected national policy making.

Findings

- The assessments and the methodological work by the Commission (as well as by other international organisations like the IMF) and the continued discussions in Europe on sound public finances, have deepened the understanding and discussion on public finances at the national level.
- Media coverage depends from Member State to Member State. There is no systematic media coverage of the fiscal surveillance activities. It depends on the particular situation of the country as well as on the general attitudes of the media concerning reporting on such topics. The box below illustrates a few examples of the media coverage practices in a few Member States. The box reflects only a few examples which were indicated during the interviews and confirmed during subsequent internet research.

Box 5.1 Media coverage in a few Member States

France

During the period 2005-2008, there was only minor coverage of the EDP in the newspapers. A targeted internet search for (news) articles between 2005 and 2008 on the key words "déficit excessif" on the websites of La Tribune, Le Monde, and Le Figaro gives in total eight results. In combination with the key word "opposition" the total hits reduces to two, of which one reports on the opposition taking advantage of "the last fiscal policy debate of the legislature [...] to attack the record of the policy pursued by the right for five years" (2). In this article, the existence of an excessive deficit is only scarcely referred to.

UK

References in the UK media do not exist systematically. In June 2008, the EDP was mentioned in BBC News.

BBC NEWS (June 11, 2008)²⁸

The European Commission is to start disciplinary proceedings against the UK for breaching its economic rules. [...] The UK cannot be fined as it is not in the euro zone, but the launch of proceedings is unlikely to reflect well on the UK government [...] Graham Mather, president of the European Policy Forum and a former Conservative MEP, said: "At the moment it looks as though

²⁸ <http://news.bbc.co.uk/2/hi/business/7447531.stm>

Gordon Brown is going to face an excruciating embarrassing period in which all these proceedings will be brought to bear on Britain.

Belgium

In Belgium the Council's recommendations and invitations are regularly reflected in the media (on the front page of national newspapers) and referred to by academics, in particular concerning the excessive deficit.

Finland

In Finland, a country which a good fiscal policy, as recognised by the Council, media coverage of and discussion on the Council recommendations in the media are rare.

- Persistent invitations by the Council (and the Commission) related to long-term reform of public finances (typically related to improving the sustainability of public finances) keep the issue on the political agenda in the Member States. This concerns practically all Member States.
- The outputs of the Commission (and the Council) are often used (referred to) in the political debate; either by the government or by the political opposition, depending for whom the outputs are politically opportune. Also national policy research institutes and other stakeholders (such as investment banks) refer to the Commission's work. Examples (according to respondents) are: Ireland, Italy, Germany, Spain, and the United Kingdom.
- The subsidiarity principle limits the ability of the Commission to openly suggest workable policy options for Member States, and respondents indicated that this limits the extent to which the Commission's outputs feed into the public debate at the national level.
- The extent to which recommendations by the Council are followed up or the extent to which they are subject of public debate does not give a complete picture of how relevant the work of the Commission is. There are more processes *below the surface* that are affected by DG ECFIN's outputs and activities. For example, in most Member States the Commission's outputs and the Council's opinions are very supportive to the Ministries of Finance during the national budget negotiations with line ministries and governments. Examples (according to respondents) are: Ireland, Italy, Germany, and the Netherlands.

Some Quotes

"In recent years the quality of the fiscal surveillance of DG ECFIN has clearly improved [which] has led to some improvements in our own fiscal policy analysis. [In particular], the methodological work conducted by the DG ECFIN together with other international organisations has deepened our own understanding on these issues. [Furthermore], the work concerning fiscal rules and institutions is also important and structured the dialogue between the Member States and the Commission."

"It is clear that continued discussions in Europe on the sustainability of public finances have contributed to the decision by the Cabinet to take these structural measures".

“In our opinion, assessments by the Commission and opinions of the Council, as well as recommendations by other international organisations like to the IMF, have contributed to the discussion [...] on the treatment of interest payments and receipts within the expenditure ceilings in specific, and procyclicality in the budget in general.”

“One has to keep in mind that budgetary issues are politically highly sensitive from a subsidiarity point of view. Against this background, the Commission has been quite successful when trying to deepen the debate on fiscal issues and enhancing the overall commitment among Member States. [...] The lively debate on stability and convergence programmes and on EDP recommendations at the committee level clearly reflects the importance of these issues and the common concern.”

“Without the work of the Commission, the Ministry of Finance in [...] would seriously loose leverage power.”

“The ministers of Finance and [...] and [...] insisted upon tighter deadlines related to the EDP than suggested by the Commission, with the purpose of increase leverage at home.”

“The ‘legal pressure’ from an EDP affects the public debate to a greater extent than the ‘peer pressure’ from the Commission’s assessments of SCPs (and related documents).”

“Because of the subsidiarity principle, the Commission needs to be more tactful in addressing structural reforms (e.g. related to social welfare systems, tax related stimulus, broadening tax bases) than the IMF or the OECD. This may affect the influence on the public debate because it limits the ability to proactively suggest workable options.”

5.4 Conclusions

- The public debate in Member States typically has a focus on national budgetary processes and documents. Across the board, the Commission’s work seems to be of secondary importance.
- However, a large share of the impact on national policy debates goes through processes below the surface that are less clear to the public, notably:
 - via interdepartmental negotiations between Ministries of Finance and line ministries, and
 - via methodological work of the Commission influencing understanding at the national level.

Through these ‘below the surface processes’ the Commission’s work affects national budgetary processes and documents, and hence the public debate.

- An Excessive Deficit Procedure increases the attention for the Commission’s work in the national public debate: legal pressure seems to be larger than peer pressure.
- Politicians and other stakeholders make use of the Commission’s outputs if this is politically opportune; other stakeholders include national research institutes, central banks, and investment banks.

6 External communication

6.1 Introduction

This chapter analyses the fifth question which has been addressed in this evaluation:

“What are the strengths and weaknesses of the current communication practice of the budgetary surveillance activities?”

The general principle of the communication activities of DG ECFIN is to create more support for and understanding of the Euro and Euro related policies. The strategy to obtain this is twofold. First, it typically focuses on communication towards so called multipliers (experts and journalists) who should pass on the message to a broad audience in the Member States. Second, DG ECFIN has a specific communication strategy towards the general public via the PRINCE Programme. Members of parliament or national governments are no specific target group.

DG ECFIN has not formulated specific objectives for communication on the fiscal surveillance activities. The objective is thus similar to its overall communication objective: create more support for and understanding of the SGP. Therefore, DG ECFIN has not formulated a specific strategy for its communication on the fiscal surveillance activities. It is part of the overall strategy which focuses on multipliers such as experts and journalists.

External communication tools that are used include:

- The website (containing all the public documents);
- A mailing list (to journalists, experts and other interested parties);
- Publications (papers and brochures);
- Seminars and workshops for experts and journalists.

Some of the communication tools are general (such as seminars, workshops and publications) and cannot be clearly related to fiscal surveillance activities. The tools which can be directly linked to fiscal surveillance activities are:

- The website, with all the public documents;
- Press releases;
- Additional communication through the mailing list.

The analysis of the external communication practice of the fiscal surveillance activities consisted of desk research²⁹ and an online questionnaire. The desk research comprised:

- an assessment of press releases and related documents on the assessments of Stability and Convergence programmes (SCPs) and Commission reports under the Excessive Deficit Procedure (EDPs);
- an expert review of the DG ECFIN site;
- a benchmarking exercise involving benchmarking with the IMF website (Article IV consultation documents and press releases) and the OECD website (economic surveys, country surveillances and press releases).

The following sections present the results of the analysis.

6.2 Analysis of documents and press releases

6.2.1 Scope of the analysis and assessment criteria

The documents and press releases of the following countries in specific years are analysed.

Table 6.1 Press releases

SCP	Excessive Deficit Procedure
2008 – The Netherlands	2006 – United Kingdom
2007 – Italy	2005 – Hungary
2006 – United Kingdom	
2005 – Hungary	

Both ‘grouped’ press releases and single-country press releases are analysed. With respect to press releases concerning the SCP:

- Single-country press releases are those related to Hungary;
- ‘Grouped’ press releases are those related to, amongst others, Italy, United Kingdom, the Netherlands.

With regard to press releases concerning EDP:

- Single-country press releases are related to United Kingdom, Hungary.

Given the repetitive structure of documents and press releases, these press releases represent a representative sample.

Only the press releases that DG ECFIN provides input for (the Commission press releases) are considered in this evaluation. It should be noted that the final version of the Commission press releases are not the responsibility of DG ECFIN.

²⁹ The analysis was conducted in June 2009 and refers to the data and website of that moment. DG ECFIN's database changed considerably on 22 December 2009. In the conclusions a comparison with the actual DG ECFIN site of 22 January 2010 is made.

Each press release and related document is evaluated with the focus on three criteria:

1. Content
2. Timeliness
3. Accessibility

These criteria are further specified in the table below.

Table 6.2 Assessment criteria

Content	Timeliness	Accessibility
<ul style="list-style-type: none"> • Does the content of the press release reflect the content of the related documents? • Does the press release mention related documents? • What is the balance between conciseness and completeness of the press releases? 	<ul style="list-style-type: none"> • Are the press releases and documents published / distributed in a timely fashion? • At which moment are the press releases made public? • At which moment are the related documents made public? • Are the press releases and related documents made public the same day as the relevant Commission meeting? 	<ul style="list-style-type: none"> • Are the press releases and the related documents easy to find? • Are they easy to understand?

As ‘*related documents*’ are considered those documents which are the subject of the press release, those documents which are mentioned in the press release and, in case of the SCPs, the DG ECFIN’s assessments.

There is a repetitive and consequent structure of documents and press releases of both Stability and Convergence Programmes (SCPs) and Excessive Deficit Procedures (EDPs). Because of this structure and the similar conclusions which we draw from the analysis only one sample of press release on SCPs and EDPs and related documents is described in this chapter. The analyses of the other press releases and documents can be found in Annex VI.

6.2.2 Analysis of press releases concerning SCP

Italy, 2007, Press release of 23 January 2007, IP/07/72

The press release under consideration discusses the Commission’s recommendation for a Council opinion of the stability programmes of Germany, France, Italy, Slovenia and Italy. The part on Italy indicates that Italy should fully implement the 2007 budget so as to correct its excessive deficit.

Related documents are:

- 23/01/07 Recommendation for a Council opinion, SEC 2007/67 final
- 27/02/07 Economic Assessment of the Stability programme of Italy

The table below provides the analysis along with the three criteria: content, timeliness and accessibility.

Table 6.3 Assessment - Italy, 2007

Content	Timeliness	Accessibility
<p>The part on Italy is about 29 lines. The data included in the press release are found in the related documents. The press release does not mention the related documents, but there is a link to the data base with the country-specific assessments. The link is: http://ec.europa.eu/economy_finance/about/activities/sgp/country/doctype/ca_en.htm</p> <p>Note that this link does not work any more (June 2009).</p> <p>The balance of conciseness and completeness of the section is good.</p>	<p>The timeliness of the publication of the evaluated documents regarding SCPs is good when the Commission recommendations for a Council opinion are concerned: The press release and the Recommendation for a council opinion are issued on the same day (23 01 2007).</p> <p>In the press release it is not mentioned when the European Commission examined the updated stability programmes. DG ECFIN's assessment of the stability programme of Italy is made public about four weeks later (27 February).</p> <p>According to DG ECFIN this underlying analysis prepared by ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content.</p> <p>The timeliness would increase substantially when this document is published at the same time as the press release and the Council opinion.</p>	<p>The press release is hard to find. It is not in the DC ECFIN database and must be found in the Europa Press release rapid data base. The search criteria in this database are complex.</p> <p>The press release and the related documents are not easy to understand for journalists who are not familiar with the EU and the stability programmes.</p>

6.2.3 Analysis of press releases concerning EDP

United Kingdom, 2006, Press release of 11/1/06 (IP/06/17)

The press release under consideration discusses the view of the Commission regarding the existence of an excessive deficit in the UK. The deficit is expected to remain above 3% and cannot be considered temporary. The Commission recommends correction of this deficit.

Related documents are:

- 11/1/06: (i) Commission opinion on the existence of an excessive deficit in the UK, SEC (2006)19 final; (ii) Recommendation for a Council decision on the existence of an excessive deficit (SEC 2006 20 FINAL); and (iii) Recommendation for a Council recommendation with a view to bringing an end to the situation if an excessive deficit (SEC 2006 21 final)

The table below provides the analysis along the three criteria: content, timeliness and accessibility.

Table 6.4 Assessment - UK, 2006

Content	Timeliness	Accessibility
<p>The press release is approximately 36 lines.</p> <p>The press release mentions several documents (the Commission opinion and the opinion of the Economic and Financial Committee). The press release gives a link to the Commission opinion, to details on the Stability and Growth Pact and to the Commission's autumn economic forecast.</p> <p>It is noted that these links do not work anymore (June 2009).</p> <p>The data of the press release is found in the related documents, The balance of conciseness and completeness is good.</p>	<p>The press release, the Commission opinion, the Recommendation for a council recommendation and the Recommendation for a council decision are issued on the same day (11 January 06), according to the DG ECFIN Database (version 22 January 2010).</p> <p>The press release mentions that the Commission took the view (opinion) "today" that the UK is running an excessive budget deficit. Therefore the timeliness is very good, <i>under the assumption</i> that both the press release and the related documents were made public at the same time.</p>	<p>The press release is hard to find. It is not in the database of DG ECFIN and must be found in another database: the Europa Press release rapid data base. The search criteria are complex and general and they very often generate a long list of documents. Only if the researcher is aware of the existence of a particular press release and the day of its release, the press release is easily accessible.</p> <p>The press release is a blend of content and decision procedure: the Commission has an opinion about the existence of an excessive budget deficit and is asking the Council to endorse this opinion and to recommend (in a Commission recommendation for a Council recommendation) that the budget deficit is brought below 3%. The blend of content and procedure makes this press release less accessible for journalists who are not familiar with the subject.</p> <p>The related documents are not easy to understand for journalists (and others) who are not familiar with the EU and the SGP.</p>

6.2.4 Conclusions – Press releases and related documents

Content

With regard to content the conclusions are:

- The press releases related to the documents of the Commission and of DG ECFIN reflect, in general, the content of the related documents;
- In most cases the press release mentions related documents and includes a hyperlink. Only the links in the press releases of the year of 2008 (and 2009) are functioning (June 2009);
- In the press releases about documents of the Commission, the balance of conciseness and completeness is in most cases good;
- In the database on the SGP website of the DG ECFIN the related documents are found. In a rare case an assessment is not found in the database;
- As far as the content is concerned, the conclusions are the same for “grouped” press releases and press releases concerning one country.

Timeliness

With regard to timeliness the conclusions are:

- In general, the timeliness of the press releases is very good;
- The timeliness of the publication of the evaluated documents regarding SCPs is good when the Commission recommendations for a Council opinion are concerned. However, it should be noted that the underlying analysis prepared by DG ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content. If it were possible to perform such a check of layout and content by the time of adoption of the recommendation of a Council opinion (which is not the case under the current arrangements), the press release could mention the assessment and include a link to it. This would significantly increase the visibility of the underlying analysis done by DG ECFIN. Journalists would be able to check the information of the Commission.
- Another issue for DG ECFIN not to publish the underlying analysis simultaneously with the press release is that readers might not sufficiently distinguish between the official Commission stance on the one hand and the DG ECFIN analysis, which is not the *official* Commission line, on the other hand.
- DG ECFIN apparently does not make much publicity for its assessments.
- The timeliness of the publication of all the evaluated documents concerning EDP is good. However, it should be noted that, for EDP reports that take the form of a Commission Recommendation for a Council decision a publication embargo of one month exists, which makes it impossible to publish simultaneously the press releases and the underlying document. On the day of Commission adoption only an excerpt from the underlying document is made public.
- As far as the timeliness is concerned, the conclusions are the same for “grouped” press releases and press releases concerning one country.

Accessibility

With regard to accessibility the conclusions are:

- In general, the accessibility of both the press releases and the documents is not up to the mark and can be improved substantially;

- Documents related to the Stability and Convergence Programmes and the Excessive Deficit Procedure are found in the SGP database of DG ECFIN. The accessibility of this database is limited (website available on June 2009) on the DG ECFIN website since the SGP database is only visible after several clicks.
 - Documents of the Stability Convergence Programme: *sgp programme/ sc programme/all programmes and assessments/find a SGP document.*
 - Documents of the Excessive Deficit Procedure: *sgp programme/ EDP programme/country specific procedures/ find SGP document*
- Finding documents in the database has been time consuming (website available on June 2009):
 - Sometimes documents have imprecise subcategories in the SGP database of DG ECFIN or are have the wrong titles in the database;
 - The names of documents are not harmonised: opinion, assessment, communication, recommendation, decision, commission recommendation for a council recommendation, commission recommendation for a council decision exist all together;
 - The layout of the data base is confusing;
 - Each time one looks for any other document, one has to start at the entry of the database.
 - **On 22 December 2009 the content and the layout of the ECFIN website and the SGP databases were improved in such a way, that the documents are now easy en quickly to find. After 22 December 2009 the accessibility of the SGP documents is good.**
- The press releases about the Stability Convergence Programmes and the Excessive Deficit Procedures are found in the Europa Press release rapid data base. These press releases are hard to find. The search criteria are not focussed on this; this is strictly seen not the responsibility of ECFIN, but of the corporate communication policy of the EU.
- The press release and the related documents about the Stability and Convergence Programmes and the Excessive Deficit Procedures are not easy to understand for journalists and others who are not familiar with the EU and SGP. There is not a clear difference between the press release on the one hand and the other documents on the other. As far as accessibility is concerned, the conclusions are the same for “grouped’ press releases and press releases concerning one country.

6.3 Expert review of the DG ECFIN website

First of all, it is emphasized that the DG ECFIN website http://ec.europa.eu/economy_finance/index_en.htm has undergone some important changes which came online on 22 December 2009. The expert review was done before 22 December. In order to be able to understand the improvements made we focus on our findings on the expert review of the ‘old’ website and present our view concerning the ‘new’ website.

6.3.1 Europa portal en European Commission website

On the website of the European Commission (http://ec.europa.eu/index_en.htm), subjects such as DG ECFIN and 'economic and financial affairs' are mentioned only via the left hand menu "Who's who > Directorates General & services". On the home page of the EC itself a very limited dropdown menu exists, which gives access only to articles.

On the EUROPA portal (http://europa.eu/index_en.htm), the DG ECFIN site is found after three clicks.

The way the DG ECFIN site can be found from the Europa portal and from the EC website can be improved a lot.

6.3.2 DG ECFIN site

With the help of internet search engines the website of DG ECFIN is easily found. However, before 22 December 2009 the DG ECFIN site had no page recognisable as homepage. The entrance via internet search engines to this website depended on the usage of key words. When one types 'eu economy' the third result brought one to a page which started with news (http://ec.europa.eu/economy_finance/index_en.htm). If one went further on the site (click Stability and Growth Pact for example) one could not easily return to this page. In the left hand menu there was no home page mentioned. This changed after 22 December. There is now a page marked as home page, in the left hand menu there is now a Homepage entry. Return to the homepage is made easy, either by using the navigation entry "Home", or the bread crumbs at the top of the page.

The page with news consists of the following elements:

- The left hand navigation menu lists all major web sections. The first section provides general information in mostly all official languages of the EU and includes entries such as the Euro, the economic situation, the Stability and Growth Pact, etc. There was an Economic Affairs button and a Twitter button. The Economic affairs button was removed in December 2009; the Twitter logo was moved up into the banner. The left hand navigation menu stays when you go further on the site. The navigation menu is adequate (before and after 22 December).
- In the centre of the news page there are news items with a column 'Coming soon' and a column 'Focus on'. The lay out of this part of the news page had no focus and was fragmented. The lay out did not help to give the visitor an easy overview of the content of this section of the page.

On 22 December the news page changed considerably and was marked as home page. In the centre of the new homepage of the DG ECFIN website, there are now four sections. One news section in the upper part followed by three columns: 'Coming soon', 'Key reports' and 'Focus on'. In the banner is a Twitter logo.

- The lay out of the DG ECFIN website, including the news page, changed after 22 December. The lay out of the home page, which is also the news page, is now good. It has a comprehensible structure and a clear focus on different types of content.
- The news section contains relevant news. On 5 December, for example, there was a short text on the Commission that 'recommends paths for deficit correction and assesses effective action in response to Council recommendations of April'. This news item contains a link to the related press release, to the presentation by Commissioner

Almunia and to various documents (i.e. Commission opinion on the existence of an excessive deficit, Commission recommendations for a Council decision on the existence of an excessive deficit and a Council recommendation to end the excessive deficit situation, Commission recommendation for a Council recommendation to end the excessive deficit situation, Commission recommendation for a Council decision establishing inadequate action).

The press releases (not under the responsibility of DG ECFIN) mentioned in the news page of DG ECFIN website, contained before 22 December a link to 'related documents'. This link led to the entry of the SGP database. This made it very hard to use if one doesn't know where the related documents are (for this one had to go back to the links in the news page).

The news section has been changed in December 2009. The news section is bigger and is placed more prominently. All news items consist of a text with information aimed at the general public and links to relevant press releases and documents. The presentation of the links improved a lot. It now shows a table including the full set of documents. According to DG ECFIN the press releases now link to the specific country or procedure page(s) which show a table including the full set of documents. However, on 20 January 2010 there were no press releases about fiscal surveillance activities which were issued after 22 December 2009. So this could not be verified (yet).

- On the right side is a column with various subjects: a search modus 'Jump directly to' (one can choose between prepared subjects, it is impossible to name one's own subject), the latest press releases links to the Commissioners website, kids corner etc. Only the 'Jump directly to' remains when one go further in the site.

The database (Find a document) on the right column of the website and in the different parts of the section on the SGP is reviewed earlier in this chapter. Up until December 2009 there were two databases: a general one and one dedicated to the SGP. There is no overlap between both. They have now been replaced by the table presentation and an improved general search page. These improvements have made it much easier to find documents.

The section about the SGP (clickable on the left hand menu) contains different subsections, many of them in mostly all official languages of the EU:

- A section about the Stability and Convergence Programmes. This section gives information about these programmes. It has a link to 'Relevant legal texts and guidelines', 'Data and methods' and 'All programmes and assessments'. The information about the programmes can be improved by using the same words (and in the same sequence) as in the links.
- A section about the sustainability of public finances. This section contains a text about the consequences of ageing and a link: The economic and budgetary consequences of ageing.
- A section about excessive deficit procedure. The section gives information about the procedure and links to: 'Relevant legal texts and guidelines' and 'Country-specific procedures'.
- A section about early warning mechanism and policy advice. This section gives a very concise explanation of the procedure and contains a scheme of documents about a

number of Member States. The documents are in context with the procedure explained above the table in the same page. This section contains two links: 'Legal texts and guidelines' and 'Data and methods'.

The lay out of the website is based on the lay out of the general European Commission site. However, the lay out of the ECFIN website before 22 December 2009 had the '*look and feel*' of an older version of the lay out of the European Commission website (5 December 2009). The improvement of the website of 22 December gave the DG ECFIN website an modern and 'cared for' look and feel.

6.3.3 Conclusions in terms of content, timeliness and accessibility

In terms of content, timeliness and accessibility the following can be mentioned about the SGP part of the DG ECFIN website:

Content

The very strong point of the website is the collection of all relevant documents by country and procedure.

Timeliness

The news part is supposed to be the part where timeliness is most important. The latest news item in the news section of the page on the DG ECFIN website on 5 December was of 27 November. According to DG ECFIN, news on the DG ECFIN site is timely in the sense that it is made available as soon as cleared for online publication. Some news items stay there longer since DG ECFIN does not produce enough material to completely change the entire news section on a daily basis. Considering the remarks of DG ECFIN the timeliness is good.

Accessibility

The DG ECFIN website is easy to find with the help of search engines. The DG ECFIN website is not easy to find from the EC homepage on http://ec.europa.eu/index_en.htm.

The improvements of 22 December 2009 made the DG ECFIN site easy to navigate and documents easy to find. Before 22 December this was not the case.

6.4 Benchmarking with the IMF and OECD website

The benchmark was made in the first week of December 2009 and involves benchmarking with the IMF website (Article IV Consultation documents and press releases) and the OECD website (economic surveys, country surveillances and press releases).

6.4.1 IMF website

Documents about Article IV consultations and the Staff reports are very easy to find in the search engine on the IMF website by typing 'article IV' in the search bar, or clicking the country info button on the top of the page. Press releases, 'Public Information Notices' on Article IV documents are easy to find in the database which is found under the News button on top of the page.

Two examples are:

- **The Netherlands 2007 Article IV Consultation:** On 22 June 2007 a Public Information Notice (PIN) was published on the site. In this PIN there is a functioning link to the staff report. On 10 April the preliminary findings of IMF staff were published on the site. No other press release is found in the database.
- **Italy 2006 2007 Article IV Consultation:** On February 15, 2007 a PIN is published. The PIN has a functioning link to the complete Staff report. No other press release is found in the database.

In terms of content, timeliness and accessibility the following can be said about the Article IV documents on the IMF website:

Content

The information and the presentation of the information are clear. The amount of documents, however, appears to be much less than that on the site of DG ECFIN. Links to the related documents are functioning well and brings the reader directly to the document.

Timeliness

The timeliness is good. The PINs have the same dates as the documents approved by the IMF Board.

Accessibility

The accessibility of the site is very good. The site is easy to find and convenient to navigate. The search engine is very good.

6.4.2 OECD website

Summaries, news releases and Policy Briefs (with the OECD assessment and recommendations, but not all of the charts of the report) are easy to find. There are different ways: click the button 'By Topic' (Browse), then 'economics and growth (Economy)', then or 'publications', or 'information by country'. After clicking 'Information by country' a set of documents appear. It is possible to choose, among others, between economic surveys, annual reports, policy briefs and news releases. However, it is clear that the results are far from complete. Clicked on the Netherlands and on Policy Briefs on 5th of December 2009, only one Policy Brief appeared. When entered Policy Brief Netherlands in the search option, 333 results appear.

Complete editions of country surveys are not available on the site. It has to be purchased at the online shop. It is freely available only to registered users with an online subscription to OECD Economic Surveys.

Two examples are:

- **Economic Survey, Italy 2005:** An executive summary and a Policy Brief are published on 18 May 2005 and are available on the website. On 17 May the OECD indicated in a News alert that journalists were allowed advanced access to the electronic version of the publication, by e-mail and under embargo, four hours ahead of release time. For journalists in Asia/Pacific time zones such advanced access was allowed 12 hours ahead of release time. The full version of the OECD Economic Survey is not available on the website. This is a huge difference compared to EC and IMF practices.
- **Economic Survey, the Netherlands 2008:** On 22 January 2008 the OECD indicated that the economic survey of the Netherlands was to be published on Thursday, 31 January 2008. Journalists were allowed advanced access to the electronic version of the publication, by e-mail and under embargo, four hours ahead of release time. For journalists in Asia/Pacific time zones such advanced access is allowed 12 hours ahead of release time. An executive summary and a Policy Brief are published on 31 January 2008. The full version of the OECD Economic Survey is not available on the website.

In terms of content, timeliness and accessibility the following can be said about the Economic Surveys on the OECD website:

Content

The presentation of the information has a comprehensible structure and a clear focus on different types of content. The amount of documents, however, is much less than that on the website of DG ECFIN. Links to the related documents are functioning well. The full version of the OECD Economic Surveys is not available on the website.

Timeliness

The timeliness for journalists is very good. On the website it is indicated that for journalists the full report is available even before the publication.

Accessibility

The navigation of the website is relatively easy but needs a lot of clicks and is not always clear. There are various ways to search documents, which do not always give the same results. As the reports have to be purchased, the accessibility of the country reports is rather weak.

6.4.3 Conclusions of the benchmarking exercise

The DG ECFIN website provides a large amount of documents. This is a very strong point, in comparison with the IMF and the OECD websites. After 22 December these documents can be easily found, due to an improved lay out of the site and an improved presentation of the content and an improved general search page.

The search engine and lay out of the IMF website are very good. Documents are found easily and quickly. The number of documents appears to be limited in comparison with the DG ECFIN website.

With regard to the OECD website, the timeliness of information for the press is very good, and in general the lay out is good. On the other hand, for the general public the documents of the OECD are not available on the website and the search engine does not work very well.








6.5 Findings and conclusions from the online questionnaire

6.5.1 Findings from the online questionnaire

As mentioned in the previous chapter 212 respondents have answered the online questionnaire. The results with respect to the external communication of DG ECFIN about fiscal surveillance activities are as follows.





In general, the respondents receive information about the activities of DG ECFIN from different sources. Most mentioned are the DG ECFIN emails (62%) and the website (61%). 50% of the respondents mentioned the press as an information source.

Table 6.5 How do you get information on the Commission's fiscal surveillance activities? You can give more than one answer

Response	Total	% of responses	%
1 DG ECFIN e-mail	125		62 %
2 DG ECFIN press release	66		33 %
3 DG ECFIN website (the section on the SGP)	123		62 %
4 Press	101		50 %
5 Academic publications	70		35 %
6 Events	39		20 %
7 Other, please specify	20		10 %

Keeping in mind the focus on evaluation of *external* communication, we have excluded the responses of the EU civil servants from the analysis. In addition, the categories 'student', 'politician in a Member State', 'EU politician' and 'Other' have also been left out from the analysis due to their fairly small sample size. The table below gives an indication of the total number of respondents under each of the four categories under consideration.

Table 6.6 Profession of (selected) respondents





Response	Total	% of responses	%
1 Academic	43		32 %
2 Consultant	28		21 %
3 Journalist	13		10 %
4 Civil servant in a Member State	50		37 %

Some of the most noteworthy findings of the survey with respect to external communication are presented below.

Knowledge of fiscal surveillance

Regarding the knowledge of fiscal surveillance in the EU, 56% of the respondents possessed either good or excellent knowledge, 33% had average and 11% had superficial knowledge. Out of the 15 respondents which considered their knowledge of fiscal surveillance in the EU to be “superficial” 2 were academics, 9 consultants, and 4 civil servants in a Member State.


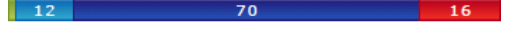





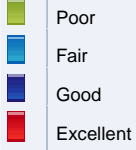
Table 6.7 Knowledge of fiscal surveillance in the EU

Response	Total	% of responses	%
1 Excellent	22		16 %
2 Good	53		40 %
3 Average	44		33 %
4 Superficial	15		11 %

Information sent via email




On the question how respondents rate the information (about fiscal surveillance) that DG ECFIN sends via email, 69% of the 74 respondents rated accessible/understandable as good. 82% found this information to be of fair or having good reliability. Only 7% of the respondents found the completeness of the information to be poor. 69% of the respondents indicated ‘excellent’ or ‘good’ when asked whether the information is relevant and useful; and 67% of the respondents gave similar scores with respect to the question whether the information was considered to be authoritative.

Table 6.8 Rating of DG ECFIN information sent by email

Sub-questions	Respondents	% of responses
Accessible / Understandable	74	
Reliable	74	
Up-to-date	74	
Complete	74	
Concise	74	
Relevant / Useful	74	
Authoritative	74	
		

With respect to the issues of looking for more information after receiving an email related to fiscal surveillance, 64% of the respondents answered affirmatively. These respondents referred to the DG ECFIN website for further information. 28% of the respondents had no need to look for further information.






Table 6.9 Do you look for more information after receiving an email related to fiscal surveillance?

Response	Total	% of responses	%
1 Yes, on the DG ECFIN website	47		64 %
2 Other, please specify	10		14 %
3 No	21		28 %

Press releases

With respect to the ease of finding press releases related to fiscal surveillance, 60% found it easy or very easy, while 32% found it either difficult or very difficult to find.

Table 6.10 Ease of finding press releases related to fiscal surveillance








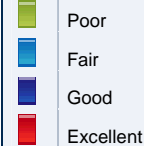
Response	Total	% of responses	%
1 Very difficult	3		9 %
2 Difficult	8		23 %
3 Easy	18		51 %
4 Very easy	3		9 %
5 I don't look for press releases on the EC website	3		9 %

Of the 21 respondents who found the press releases related to fiscal surveillance either easy or very easy to find, 2 were academics, 2 consultants, 6 journalists and 11 civil servants in a Member State. Of the 11 respondents who found the press releases related to

fiscal surveillance either difficult or very difficult to find, 5 were academics, 1 consultant, 2 journalists and 3 civil servants in a Member State.




With respect to rating of information in the press releases related to fiscal surveillance, 91% found its accessibility/understandable to be fair, good or excellent. All respondents found the information to be fairly reliable or rated it even higher. 74% of the respondents found the information to be up-to-date ('good' or 'excellent'). With respect to completeness and conciseness respectively 60% and 65% of the respondents found the information good or excellent. Finally, over 70% of the respondents considered the information to be good or excellent in terms of relevance/usefulness and authority. Only a small fraction of the respondents found the information to be of poor quality with respect to each separate characteristic assessed.

Table 6.11 Rating of information in the press releases related to fiscal surveillance

Sub-questions	Respondents	% of responses
Accessible / Understandable	57	
Reliable	57	
Up-to-date	57	
Complete	57	
Concise	57	
Relevant / Useful	57	
Authoritative	57	
		

With respect to the question whether one looks for more information after receiving a press release related to fiscal surveillance, 66% of the respondents answered affirmatively. These respondents referred to the DG ECFIN website for further information. 29% of the respondents had no need to look for further information.





Table 6.12 Do you look for more information after receiving a press release related to fiscal surveillance?

Response	Total	% of responses	%
1 Yes, on the DG ECFIN website	23		66 %
2 Yes, elsewhere (please specify)	8		23 %
3 No	10		29 %

Section on the Stability and Growth Pact on DG ECFIN's website

Regarding the ease of finding the section on the Stability and Growth Pact on the website of DG ECFIN, 78% found it either easy or very easy to find while 22% found it either difficult or very difficult to find.







Table 6.13 Ease of finding the section on the Stability and Growth Pact on the website of DG ECFIN





Response	Total	% of responses	%
1 Very difficult	2		3 %
2 Difficult	13		19 %
3 Easy	46		68 %
4 Very easy	7		10 %

Of the 53 respondents who found it either easy or very easy to find the section on the Stability and Growth Pact on the website of DG ECFIN, 19 were academics, 8 consultants, 5 journalists and 21 civil servants in a Member State. Of the 15 respondents who found it either difficult or very difficult to find 5 were academics, 4 consultants, 2 journalists and 4 civil servants in a Member State.

With respect to country specific documents related to the SGP 87% of the 63 respondents found country specific documents related to the SGP fairly easy or easy to find on the website of DG ECFIN. 99% found it fairly easy or easy to understand while 97% found it fairly complete or complete. Over 85% found the other documents to be both fairly or fully concise and authoritative.

Table 6.14 On the country specific documents related to the SGP, are these documents

Sub-questions	Respondents	% of responses
easy to find on DG ECFIN website?	63	
easy to understand?	63	
concise?	63	
complete?	63	
useful?	63	
authoritative?	63	

	No
	Fairly
	Yes
	No opinion

With respect to other documents related to the SGP the results are almost the same: 90% of the 52 respondents found other documents related to the SGP fairly easy or easy to find on the website of DG ECFIN. All found it fairly easy or easy to understand while 90% found it fairly complete or complete. Over 85% found the other documents to be both fairly or fully concise and authoritative. Four respondents did not find the other documents related to the SGP to be easy to find and concise (one from each category - academic, consultant, journalist and civil servant in a Member State).

Table 6.15 On the other documents related to the SGP, are these documents

Sub-questions	Respondents	% of responses
easy to find on DG ECFIN website?	52	
easy to understand?	52	
concise?	52	
complete?	52	
useful?	52	
authoritative?	52	

	No
	Fairly
	Yes
	No opinion

With relation to the *general information on the SGP*, a large majority of the respondents could easily find them on the website of DG ECFIN, easily understand them and were satisfied with the information in terms of conciseness, completeness and usefulness. In terms of conciseness 19% responded negatively, while for the other characteristics the percentage of dissatisfied respondents was negligible.

Table 6.16 Opinions concerning general information in the SGP

Sub-questions	Respondents	% of respondents
easy to find on DG ECFIN website?	27	
easy to understand?	27	
concise?	27	
complete?	27	
useful?	27	

	No
	Fairly
	Yes
	No opinion

Regarding the *background information on the SGP* (legal, methodological, data, etc.), 90% of the respondents found it either easy or fairly easy to find such information on the website of DG ECFIN. Only 2 respondents did not find it easy to find (one was a journalist and the other a civil servant of a Member State).

Table 6.17 Opinions concerning the background information in the SGP. Is this information easy to find on the website of DG ECFIN?

Response	Total	% of responses	%
1 No	2		6 %
2 Fairly	15		48 %
3 Yes	13		42 %
4 No opinion	1		3 %

Comparison with IMF and OECD websites

On comparing the IMF website with the DG ECFIN website, approximately half of the total respondents found the IMF website to be worse in terms of being accessible/understandable, up-to-date and concise. 31% and 35% of the respondents considered the IMF website to be better than the DG ECFIN website in terms of it being relevant/useful and authoritative. A large number of respondents had no opinion on this matter.

Table 6.18 IMF website vs. DG ECFIN website

Sub-questions	Respondents	% of respondents
Accessible / Understandable	55	
Reliable	55	
Up-to-date	55	
Complete	55	
Concise	55	
Relevant / Useful	55	
Authoritative	55	

- IMF is much worse
- IMF is worse
- IMF is better
- IMF is much better
- No opinion

On comparing the OECD website with the DG ECFIN website 45% of the total respondents found the OECD website to be worse in terms of being accessible/understandable. In terms of being reliable, up-to-date, complete, concise, relevant, useful and authoritative respectively 32%, 39%, 39%, 36% and 36% considered the OECD website much worse. About 20 to 25% found the OECD website much better. Approximately one-third of respondents had no opinion on this matter.

Table 6.19 OECD website vs. DG ECFIN website

Sub-questions	Respondents	% of responses
Accessible / Understandable	44	
Reliable	44	
Up-to-date	44	
Complete	44	
Concise	44	
Relevant / Useful	44	
Authoritative	44	

- OECD is much worse
- OECD is worse
- OECD is better
- OECD is much better
- No opinion

6.5.2 Conclusions with regard to the online questionnaire

The respondents receive information regarding the fiscal surveillance activities of DG ECFIN from different sources. Most mentioned are the DG ECFIN emails (62%) and the website (62%). 50 % of the respondents mentioned press as an information source.

With respect to the knowledge of fiscal surveillance in the EU, 56% of the respondents possessed either good or excellent knowledge, 33% had average and 11% had superficial knowledge.

The information that DG ECFIN sends by email is highly valued by the respondents. Best valued are 'accessible / understandable' (69% good, 8% excellent) and 'reliable' (70% good, 16 % excellent). Over 65% of the respondents found the information to be good or excellent in terms of it being 'up-to-date', 'complete', 'concise', 'relevant/useful' and 'authoritative'. If looking for more information after receiving an email related to fiscal surveillance, 64% of the respondents referred to the DG ECFIN website.

Approximately 60% of the respondents found press released related to fiscal surveillance at least easy to find while 32% found it either difficult or very difficult to find. With respect to rating of the information in the press releases related to fiscal surveillance, over 50% found this information to either of good or excellent quality in terms of being 'accessible / understandable', 'reliable', 'up-to-date', 'complete', 'concise', 'relevant/useful' and 'authoritative'. Of the 66% of respondents who required additional information after receiving the press release referred to the DG ECFIN website.

Most respondents found the section on the SGP on the website of DG ECFIN easy to find.

The majority of the respondents indicate that the information about country specific and other documents is easy or fairly easy to find on the website. Also with respect to the categories concise, complete, useful and authoritative, the general picture is positive. The best scores are:

- with respect to SGP documents on the site being 'authoritative';
- for country specific documents on the site where 67 % of the respondents responded 'yes', 27% responded 'fairly' and only 2 % indicated 'no'.

With regard to comparing the DG ECFIN website with the IMF and OECD websites, approximately half and one-third of the total respondents found the websites of the IMF and OECD respectively to be worse than the DG ECFIN website. However, approximately one-third number of respondents had no opinion on this matter.

7 Conclusions and recommendations

This study contains the findings and conclusions of the evaluation of DG ECFIN fiscal surveillance activities. The overall evaluation question is: “*How does DG ECFIN do its activities, given the rules set in 2005*”. The overall evaluation question is further divided in five main evaluation questions, addressing aspects of timeliness, efficiency, soundness, relevance and external communication.

This chapter summarises the conclusions. The conclusions are presented according to the evaluation questions. The final section of this chapter presents our recommendations

7.1 Conclusions - Timeliness

Timeliness and cross-country consistency	To what extent do the budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness and cross country consistency?
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In order to answer the question the dates of all documents under both, the preventive and corrective arm are compared to the legally or institutionally required deadline. Based on our analyses we observe that the budgetary surveillance outputs produced by DG ECFIN fulfil the legal and institutional mandate with respect to timeliness. Also, DG ECFIN does not structurally differentiate between countries with respect to timeliness under both the preventive and corrective arms of the SGP.

These conclusions are based on the following findings:

- *With regard to the preventive arm of budgetary surveillance:*
 - Although the SCPs are not an output of the Commission, their publication dates are relevant for the timeliness of the process of the preventive arm as a whole. Submission of SCP updates should take place shortly after national governments have presented their budget proposals to parliaments, but not earlier than mid-October and not later than 1 December. Most Member States tend to meet the stipulated institutional timeline for submission of their SCPs. In some instances some Member States did not meet the deadline. Some of these delays occurred due to elections taking place in respective countries. During 2008-09, most countries on the request of the Commission delayed the submission of their SCP or submitted an addendum in order to incorporate their follow-up to the European Economic Recovery Plan.
 - With regard to the EFC and Ecofin Council examinations of the SCP updates, the institutional mandate specifies that in order to promote the efficiency of the budgetary and economic surveillance and achieve a better interaction between

different procedures, submission of SCPs and the subsequent EFC and Ecofin examinations should be completed by the end of March of each year. There is, however, no legal timeline with respect to the EFC and Ecofin examinations. After consultation within DG ECFIN we found out that the deadline is difficult to comply with for the Member States, primarily due to efficiency reasons. The Commission strives to deal with the SCPs in a limited number of meetings of the Ecofin Council. The relaxation of the rule is in agreement with all the stakeholders involved in the surveillance activity. The SCPs that are submitted significantly beyond their deadline are dealt with in a similar fashion by being discussed all together in another Ecofin Council meeting which takes place in the summer.

- With regard to Policy advice and Early warnings, Both the Policy advice and Early warning documents do not have a legal timeline. It has been observed that most countries that entered into an EDP had an Early warning recommendation issued by the Commission, however, in the period under review, the Council did not adopt these recommendations and hence no Early warnings were issued.
- *With regard to the corrective arm of budgetary surveillance:*
 - All the documents are published in line with the timeline prescribed in the legal text. A general feature which is observed concerns the publication of the EFC opinion. According to Article 104(4) “the Economic and Finance Committee provided for in Article 114 shall formulate an opinion on the report of the Commission.” Based on this opinion of the EFC the Commission considers whether or not to address an opinion and a recommendation to the Council. The institutional requirement is that the EFC opinion is submitted within two weeks of the Commission report being adopted under Article 104 (3). It appears that in almost all cases the EFC opinions were prepared within 2 weeks of the Commission adopting the report prepared under Article 104(4). Only in the cases of Italy (2005) and Malta (2004) the deadline was slightly exceeded with respectively eight days and one day.

7.2 Conclusions - Efficiency

Efficiency	To what extent are resources used efficiently in budgetary surveillance?
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Based on our analysis we conclude that there is no evidence that resources are being used inefficiently in the budgetary surveillance. The lack of human resources is not anymore seen as a serious problem as reported repeatedly in the Annual Activity Reports. Over time the shortages have been fulfilled. The main concerns relate to the high turnover of staff and the perceived high workload for particularly new staff. To some extent there is limited flexibility in using staff from one country desk to another country desk. Especially between units there is hardly any flexibility in the use of staff.

Some interviewees consider that for new staff more training options are needed in order to become better prepared for their new posts. Several interviewees would also like to see that middle and senior managers would prioritise their work on the most important dossiers related to the Stability and Growth Pact, instead of focussing on all the work of the country desks. Moreover, staff is very critical on value of the present internal review or ‘post mortem’ process.

Furthermore, budgetary surveillance is receiving the necessary support from units within DG ECFIN. The support provided by the units F4 and C2 have been explicitly noted and highly appreciated.

These conclusions are based on the following findings:

- The number of established plan posts of ABB activity 01.02 'Economic and Monetary Union' gradually increased from 214 in 2004 to 272 in 2008. Although this ABB activity involves more than just fiscal surveillance, the main increase occurred after 2005 when the scope of fiscal surveillance was broadened and the accession of new EU countries ultimately also resulted in more human resources being allocated to this ABB activity.
- Compared to the IMF which is organised according to both country and functional departments, the organisation of fiscal surveillance at DG ECFIN relies mainly on a country perspective. Most staff are permanent EC staff members.
- The contributions to the Annual Policy Statements and the Annual Activity Reports repeatedly indicated requests for additional resources and the potential risks of perceived human resources shortages at DG ECFIN. Based on interviews it was found that at present many vacancies have been filled.
- The Commission holds an internal mobility policy which encourages staff to change their positions every two to five years. Before taking up a new position, each staff member should prepare a hand-over file. Basically, the present hand-over arrangements are functioning. Nonetheless, a few staff members indicated that they would like to be supported at the start of their work by their predecessor.
- The turnover of staff at the country desks is rather high; on average a country desk officer stays two to three years at his or her post, although there are exceptions. The workload is generally perceived as high.
- Some staff members would like to have more time allotted to producing the first version of the assessment reports. In their view at present relatively a lot of time is spent on making revisions, and this influences the perception of the huge work load. However, this observation is to be seen in the context of the hierarchical clearance and decision-making procedures within the Commission. Given the formal procedures, desk officers have to produce the documents under huge time pressure.
- The background of the staff appears to fit the requirements of the work at the country desks. Almost all have a strong background in economics. New staff primarily learn on the job by doing, supported by guidance of the unit managers to the desks officers. Generally, DG ECFIN organises a number of general in-house training workshops and ahead of each SCP round in-house training sessions are organised. Some staff argue for having more training options to be better prepared for their new posts.
- Flexibility of use of staff across country desks is limited and almost non-existent across the level of units. Partly this is explained as desk officers need to have country-specific knowledge which is not easily and quickly transferable. In one unit some type of pooling of staff exists; but this is not happening in other units. Within DG ECFIN ideas of forming so-called 'country teams' across units have been discussed, but so far has not been formally introduced.
- Informal sharing of experience and country practices among country desk officers occurs on a regular basis. According to the interviewees sharing happens especially

between country desk officers working within a particular unit, and less between staff working at different units.

- Management styles and work methods within units seems to differ in some respects. For instance, this explains the existence of a pooling system in one unit, and the structured filing of documents according to a common filing structure on the internal server in another unit. At country desks with two (or more) staff members labour specialisation takes place, where desk officers are dividing the work in macro-economics subjects and public finance issues. Interviewees perceive that middle and high level managers pay still significant amount of time to the content of the work in general and the reports specifically. Some interviewees would like to see more prioritisation of the work of middle and senior managers (for instance on the most important dossiers related to the Stability and Growth Pact), instead of focussing on “everything” (including analytical contributions related to the Lisbon agenda).
- All interviewees expressed their high satisfaction with the work and support provided by the supporting units. Especially the horizontal unit F4 and unit C2 are seen as the most important supporting units. The work and support received from the horizontal unit F4 is very highly appreciated by the country desks. The calendars for the different outputs are clear. Few interviewees would like to see better streamlining of the calendars of the different outputs.
- The internal review process or ‘post mortem’ is organised after the production of each output. The process is an informal assessment fed by feedback of staff on open questions. Feedback is provided on a voluntary basis, sometimes followed by team meetings. Staff is very critical on value of the post mortem process.
- The last EDP round has been considered exceptional and increased even the workload, especially due to the hence and forth circulations of comments. The perceptions of huge workload has also been influenced by the so-called ‘steering points’ by the Cabinet of the Commissioner, which in particular in the last EDP round changed during the execution of the tasks by the country desks and the horizontal unit. Although senior management usually coordinates its work with the Cabinet, with respect to the last EDP round a few interviewees indicated that perhaps senior management of DG ECFIN could have entered into a more meticulous discussion or ‘pre-coordination’ with the Cabinet before the ‘steering points’ were sent further to the horizontal unit and subsequently to the country desks. The last round was characterised by several interviewees as “*working with moving targets*”.

Even though it is difficult to make comparisons of the organisation of the country surveillance processes with the processes in the IMF and the OECD, some learning points can be emphasized. These will be addressed further in section 7.6.1.

7.3 Conclusions - Quality

Soundness	Are the outputs based on sound analysis and to what extent has the progressive broadening of the scope of budgetary surveillance contributed to improving the quality (soundness) of budgetary surveillance?
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With regard to the preventive arm of the SGP, the analysis focussed on five countries: France, Hungary, Italy, The Netherlands and the UK. With respect to the corrective arm

the analysis focussed on the EDPs that started and were completed during the period under surveillance for the same country sample plus Portugal. These are the EDPs for Italy, Portugal and the UK. The progressive broadening of the scope of budgetary surveillance has been investigated *only* for the Commission assessments of the Stability and Convergence Programs. The following sub-sections summarises the conclusions based on our analysis.

7.3.1 The preventive arm

Conclusions concerning structure and contents

- The precise content of the MFAs is very similar across countries, but differs across vintages.
- The structure of the MFAs for the vintage 2006/07 is comparable to the MFAs of the previous vintage. However, some modifications have been introduced. The most striking change is the inclusion of a section on the common scene setter of this round – economic trends and policy challenges. The “*Economic Trends and Policy Challenges*” section is divided into five parts. The first part provides a brief overview of the macroeconomic performance in terms of growth and other major macro-variables. The second part presents the results of a growth accounting exercise and tries to identify the main reasons for the average annual economic growth performance vis-à-vis the euro area. The third part looks at the volatility of growth and other key macroeconomic variables and the stabilising or destabilising role of macro-policies. The fourth part focuses on trends in public finances. The fifth and final part identifies major economic challenges and implications for public finances, normally in terms of fiscal consolidation, sustainability and efficiency.
- The structure of the MFAs in the vintage 2007/2008 is also very similar to that of the MFAs of the vintage 2005/2006. The more topical scene setter of this vintage of MFAs is the section “Key challenges for public finances, with a particular focus on public expenditure” for Italy, France and the UK, “Key challenges for public finances, with a particular focus on fiscal policy and overheating” for the Netherlands, and “Key challenges for public finances, with a particular focus on the reforms of fiscal governance” for Hungary.

The section “*General Government balance*” includes a systematic decomposition of the differences in revenue/expenditure/budget targets for the current-year projected outcomes into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. This decomposition helps drawing a clearer picture of the factors underlying the budgetary slippages.

- With regard to the MFAs of the latest vintage 2008/2009, all the MFAs start with a brief introduction providing information on the submission date of the update and whether or not the latter was adopted by (and discussed) in the Parliament. Then a new section “*Main challenges in the economic downturn and the policy response*” is provided. This was dictated by the need to assess the impact of the sharp global economic downturn and the financial crisis hitting both external and domestic demand. The country’s announced stimulus or recovery packages to counter the economic downturn are outlined and assessed.

Similarly to the previous vintage, this round of MFAs contains a more topical scene setter which is provided by Annex 1. This detailed section is fully dedicated to a

country-specific special topic. For Hungary, the latter is “The role of structural reforms in Hungary’s fiscal adjustment programme”; for the Netherlands it is “Efficiency of budgetary rules”; for Italy “Taxation and the labour market”; for the United Kingdom “The economic and fiscal significance of the UK housing market” and for France “Taxation and the minimum wage in France: impact on unemployment”. These Annexes are very informative and constitute a fundamental building block in a more-in-depth macro-fiscal assessment.

Conclusions with regard to benchmarking with IMF Article IV Country Reports

- First it is noted that the scope of the IMF Article IV Country Report is broader than the MFAs. In addition, it is noted that compared with the IMF’s Article IV reports, the MFAs are produced under severe time constraints as a horizontal exercise and this imposes practical limitations on the scope of the analysis within the MFAs.
- The IMF systematically pays particular attention to a number of indicators that are used as inputs in the assessment of the risks to domestic and external stability, so-called vulnerability indicators. These indicators are related to: (i) external position; (ii) financial and credit market; (iii) financial and banking sector risks.
- With regard to the public finances, the IMF reports occasionally include more in-depth analysis of the structure and riskiness of the public debt, as well as the structure and riskiness of assets and liabilities for the financial sector, the corporate sector and the household sector. This allows assessing the vulnerability of the economy to shocks. The reports also show some stress test scenarios for the public debt, for example relating to alternative growth assumptions, policy (adjustment) assumptions, real interest rates and depreciation.
- The IMF reports also address other relevant issues, such as fiscal transparency (2005 Report on Italy, published February 2006; 2006 Report on Italy, published January 2007), the need for “fundamental expenditure controls”, public administration and its system of wage bargaining, and the tightness of budget constraints on local authorities. Furthermore, the 2007 IMF Report on France (published February 2008) focuses on challenges and options for tax reform, covering aspects such as distortions, complexity and the high headline rates for many taxes.

Assessment of MFAs – soundness

The soundness of the MFAs of the Commission has been assessed on the basis of: (i) consistency of the structure/content with respect to the legal and institutional framework; (ii) soundness/quality of the analysis. The latter criterion looked at quality in terms of data sources, interpretation of the data and policy conclusions.

The structure and content of the analysis contained in the MFAs is consistent with the fiscal surveillance aspects contained in the legal framework.

Overall, the quality of the analysis is high. The coverage is broad and comprehensive, building up from an assessment of the overall outlook, followed by an analysis of the government’s balance, debt and long-run sustainability with a view towards the rising ageing costs. The analysis emphasises the role of structural reforms and individual countries’ institutional adjustments towards enhancing fiscal discipline.

Progressive broadening

Over time, progress has been made through a gradually richer and more nuanced analysis of macro and fiscal developments. In this respect since the 2006/07 round, a year-by-year evolution of specific scene setters can be identified.

Whereas in the vintage 2005/06 no scene setter can be identified because the main focus was on properly implementing the new provisions of the revised SGP based on the country-specific MTOs, in the 2006/07 round the common scene setter is the chapter on economic trends with a growth-accounting exercise followed by a comprehensive presentation of the key challenges for public finances. The subsequent vintage 2007/08 contains a topical scene setter which is based on the country-specific key challenges for public finances. Similarly to the previous vintage, the latest round of MFAs 2008/09 provides a topical scene setter in Annex 1. This detailed section is fully dedicated to a country-specific special topic.

The progressive broadening of SCP assessments has led to an even higher quality of the analysis produced in these documents. More specifically, the topical scene setters of the last two rounds show a clear understanding from the Commission of the role of country-specific features for a more balanced assessment of the SCP updates.

Specific recommendations to improve the technical analysis are further addressed in section 7.6.

7.3.2 The corrective arm

The soundness of the EDPs reports, opinions and recommendations of the Commission have been assessed on the basis of the same two criteria: (i) consistency of the structure/content with respect to the legal and institutional framework; (ii) soundness/quality of the analysis.

Conclusions concerning structure and contents with respect to the legal and institutional framework

Overall, one can conclude that in terms of structure/content, the Commission operated fully consistent with the legal framework.

This assessment is based on the following findings:

- The reports adopted in accordance with Article 104(3) covered whether the excess over the reference value was only exceptional and temporary and whether the ratio remained close to the reference value. Moreover, the report took into account whether the government deficit exceeded government investment expenditure and whether other factors were relevant. The report was also accompanied by a detailed technical document prepared by the Commission services which provided a more-in-depth analysis of the legal aspects to be covered.
- In its recommendation for a Council recommendation, the Commission evaluated the conditions under which *special circumstances* appeared / did not appear to exist for an extension of the deadline for the correction of the excessive deficit.

- In the communication to the Council, the Commission assessed the actions taken by the Member State. Finally, when the excessive deficit in the Member State was corrected, the Commission adopted a recommendation for a Council decision to abrogate the EDP.

Assessment of EDP outputs - Soundness

Overall the analysis in the EDP outputs over the entire EDP trajectories appears to be of high quality and adequate in its coverage. The more technical parts of the analysis generally take into account all relevant factors in a well-balanced way, while conclusions are drawn in a consistent way. The overall judgment of the quality of the outputs is more difficult than for the MFAs, because unlike in the case of the MFAs there exists no comparable benchmark from other organisations, like the IMF.

7.3.3 The Public Finance Report – Evolving budgetary surveillance (Part II)

With regard to the relevant chapter in the Public Finance Report, the scope of fiscal surveillance has widened substantially in recent years. Moreover, budgetary surveillance has gradually shifted attention more towards the preventive arm of the Pact and the quality of public finances. As regards the former, the focus is more on progress towards sustainable budgetary positions in the medium run. The increased attention to the quality of public finances is also to be welcomed.

7.3.4 The Sustainability Report

Only one Sustainability Report (2006) has been published over the period under investigation. The Report investigates the sustainability of the public finances in relation to the future ageing problem and its associated costs. The potential adjustment need is summarized by the “sustainability gap”, the constant permanent budgetary adjustment (relative to the current structural budgetary position) needed to have the intertemporal budget constraint hold until 2050 assuming debt hits the 60% GDP level at that moment (S1 indicator), or the corresponding figure to ensure that the intertemporal government is fulfilled over infinite horizon (S2 indicator).

A number of sensitivity analyses are conducted, such as sensitivity to demographic and macroeconomic assumptions, sensitivity regarding the main drivers of items such as healthcare and long-term care, and sensitivity regarding the impact of medium-term budgetary analysis. Further, the role of qualitative factors is studied, such as debt dynamics, (political) risks to pension expenditures, stock-flow adjustments and contingent liabilities.

With regard to the quality of the analysis, the sustainability gap indicator is a useful indicator to measure the extra overall effort needed to make the budget sustainable. It makes no assumptions on specific behaviour of the private or public sector. The indicator allows making explicit the cost of postponing budgetary adjustment. The sensitivity exercises cover the main factors determining the sustainability gap indicator. Two observations are warranted:

- The consequences of higher employment of older workers are calculated under the assumption that those workers accumulate more pension rights. It might be useful though to explore also exercises in which the build up of pension rights is slowed down with an increase in life expectancy;
- The Report explores sensitivity in response to a higher interest rate, giving the impression that the upward risk is highest. However, with the likely future rise in capital-labour ratios, the opposite scenario is also likely and some more emphasis on this possibility would be warranted.

Additional comments are:

- With respect to the sensitivity exercises, there are no likelihoods attached to various alternative scenarios.
- The analysis pays a lot of attention to initial gross public debt and not to increase of public assets. Basing adjustment need on gross debt may in some instances lead to a too pessimistic picture.
- The Report emphasizes the need to increase employment, in particular that of the older worker. Importantly, not only incentives need to be given to employees to work longer, also appropriate incentives need to be given to employers to employ older workers longer. This might be achieved by more investment in human capital during working life and changes in the wage structure. This would deserve discussion in further work on sustainability.
- The Report does not address intergenerational equity.

Other country-specific remarks are:

- While briefly addressed in the general part, no mention is made of the effects of potential migration flows in response to the increasing need for workers.
- The role of idiosyncratic factors for the sustainability of individual countries is not explored in full-depth, even when this is covered by other Commission outputs. This is the case, for instance, concerning the use of revenues of natural resources (e.g. gas) and the costs of climate change that might affect countries in rather specific ways.

Specific recommendations are further addressed in section 7.6.

7.4 Conclusions - Relevance

Relevance	Are the content and quality of the outputs relevant to be used as inputs for national policy debates?
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Based on our analysis, we come to the following conclusions:

- The public debate in Member States typically has a focus on national budgetary processes and documents. Across the board, the Commission's work seems to be of secondary importance.
- However, a large share of the impact on national policy debates goes through processes below the surface that are less clear to the public, notably:
 - via interdepartmental negotiations between Ministries of Finance and line ministries, and

- via methodological work of the Commission influencing understanding at the national level.

Through these ‘below the surface processes’ the Commission’s work affects national budgetary processes and documents, and hence the public debate.

- An Excessive Deficit Procedure increases the attention for the Commission’s work in the national public debate: legal pressure seems to be larger than peer pressure.
- Politicians and other stakeholders make use of the Commission’s outputs if this is politically opportune; other stakeholders include national research institutes, (central) banks, and investment banks.

These conclusions are based on the findings based upon responses on an online questionnaire and interviews with staff of DG ECFIN and staff of national Ministries of Finance. The main findings from the online questionnaire are as follows:

- In Member States that were in an Excessive Deficit during the period 2005-2008, the Commission’s outputs and the Council Opinions related to an EDP gained most attention in the public debate (as compared to the other documents related to fiscal surveillance).
- The Stability and Convergence Programmes seem to gain more attention in the public debate than the Commission’s assessments of the SCPs and the related Council Opinions.
- The extent to which the SCPs, the Commission’s assessments and the Council’s opinions are a topic of public debate and this is larger in Member States:
 - that were in an Excessive Deficit;
 - that were in a bad starting position (public debt equal to or higher than 100% of GDP);
 - that were part of the Euro area in 2005;
 - comprising the EU15.

In these cases, the SCPs still receive more attention than the Commission’s outputs.

- There is no significant difference between Large and Small Member States.

The main findings from interviews are as follows :

- The assessments and the methodological work by the Commission (as well as by other international organisations like to the IMF) and the continued discussions in Europe on sound public finances, have deepened the understanding and discussion on public finances at the national level.
- Media coverage depends from Member State to Member State. There is no systematic media coverage of the fiscal surveillance activities. It depends on the particular situation of the country as well as on the general attitudes of the media concerning reporting on such topics.
- Persistent invitations by the Council (and the Commission) related to long-term reform of public finances (typically related to improve the sustainability of public finances) keep the issue on the political agenda in the Member States. This relates to practically all Member States.
- The outputs of the Commission (and the Council) are often used (referred to) in the political debate; either by the government or by the political opposition, depending for whom the outputs are politically opportune. Also national policy research institutes and other stakeholders (such as investment banks) refer to the

Commission's work. Examples (according to respondents) are: Ireland, Italy, Germany, Spain, and the United Kingdom.

- The subsidiarity principle limits the ability of the Commission to openly suggest workable policy options for Member States, and respondents indicated that this limits the extent to which the Commission's outputs feed into the public debate at the national level.
- The extent to which recommendations by the Council are followed up or the extent to which they are subject of public debate does not give a complete picture of how relevant the work of the Commission is. There are more processes below the surface that are affected by DG ECFIN's outputs and activities. For example, in most Member States the Commission's outputs and the Councils opinions are very supportive to the Ministries of Finance in the national negotiations with line ministries and governments. Examples (according to respondents) are: Ireland, Italy, Germany, and the Netherlands.

7.5 Conclusions - External communication

External communication	What are the strengths and weaknesses of the current communication practice of the budgetary surveillance activities?
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DG ECFIN has not formulated specific objectives for communication on the fiscal surveillance activities. The objective is similar to its overall communication objective: create more support for and understanding of (here:) the SGP. Therefore, DG ECFIN's specific strategy is part of the overall communication strategy which focuses on multipliers such as experts and journalists. The external communication tools which can be directly linked to fiscal surveillance activities are: (i) press releases; (2) the DG ECFIN website; and (iii) additional communication through the mailing list. The assessment has focussed on the first two communication tools.

Overall, the current communication practice of the budgetary surveillance activities is considered to be good. Especially, after recent changes were made in December 2009 the website has improved considerably. Below follows the main conclusions concerning external communication which provides more detail into the strengths and weaknesses of the current communication practice of the budgetary surveillance activities.

Press releases and related documents

Press releases and related documents have been assessed on the basis of content, timeliness, and accessibility. The conclusions are summarized in the table below.

Table 7.1 External communication – Press releases and related documents

With regard to content *	With regard to timeliness*	With regard to accessibility*
<ul style="list-style-type: none"> • The press releases related to the documents of the 	<ul style="list-style-type: none"> • In general, the timeliness of the press releases is very good; • The timeliness of the publication of the evaluated documents regarding SCPs is 	<ul style="list-style-type: none"> • In general, the accessibility of both the press releases and the documents is not up to the mark and can be improved substantially;

With regard to content *	With regard to timeliness*	With regard to accessibility*
<p>Commission and DG ECFIN reflect, in general, the content of the related documents;</p> <ul style="list-style-type: none"> In most cases the press release mentions related documents and includes a hyperlink; In the press releases, the balance of conciseness and completeness is in most cases good; In the database on the SGP website of the DG ECFIN the related documents are found. 	<p>good when the Commission recommendations for a Council opinion are concerned. However, DG ECFIN's assessment is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content. Another issue for DG ECFIN not to publish the underlying analysis simultaneously with the press release is that readers might not sufficiently distinguish between the official Commission stance and the DG ECFIN analysis, which is not the <i>official</i> Commission line.</p> <ul style="list-style-type: none"> DG ECFIN apparently does not make much publicity for its assessments. The timeliness of the publication of all the evaluated documents concerning EDP is good. However, for EDP reports that take the form of a Commission Recommendation for a Council decision a publication embargo of one month exists. 	<ul style="list-style-type: none"> In the website available on June 2009 documents related to the SCPs and the EDP are found in the SGP database of DG ECFIN. The accessibility of this database was limited since the SGP database was only visible after several clicks. In addition, finding documents in the database was time consuming. <i>However, on 22 December 2009 the content and the layout of the ECFIN website and the SGP databases were improved in such a way, that the documents are now easy en quickly to find. After 22 December 2009 the accessibility of the SGP documents is good.</i> The press releases about the SCPs and the EDPs are found in the Europa Press release rapid data base. These press releases are hard to find. The press release and the related documents about the SCPs and the EDPs are not easy to understand for journalists and others who are not familiar with the EU and SGP.

* The conclusions are the same for "grouped" press releases and press releases concerning one country.

Expert review of the DG ECFIN website

The DG ECFIN website has very recently undergone some important changes which came online on 22 December 2009. The layout of the website is based on the layout of the general European Commission site. The layout of the ECFIN website before 2 December 2009 had the *'look and feel'* of an older version of the layout of the European Commission website (5 December 2009). The improvement of the website of 22 December gave the DG ECFIN website a modern and 'cared for' look and feel.

In terms of content, timeliness and accessibility the table below summarizes the conclusions related to the SGP part of the newly revised DG ECFIN website.

Table 7.2 External communication – DG ECFIN website

With regard to content *	With regard to timeliness*	With regard to accessibility*
The very strong point of the	The news part is supposed to be the part where timeliness is most important. News	The DG ECFIN website is easy to find with the help of search engines. The DG ECFIN

With regard to content *	With regard to timeliness*	With regard to accessibility*
website is the collection of all relevant documents by country and procedure.	on the DG ECFIN site is timely in the sense that it is made available as soon as cleared for online publication. Some news items stay there longer since DG ECFIN does not produce enough material to completely change the entire news section on a daily basis. The timeliness is good.	website is not easy to find from the EC homepage on http://ec.europa.eu/index_en.htm . The improvements of 22 December 2009 made the DG ECFIN site easy to navigate and documents easy to find. Before 22 December this was not the case.

The DG ECFIN website has been compared with the relevant pages of the IMF and OECD websites. The main conclusions are:

- The DG ECFIN website provides a large amount of documents, much more in comparison with the IMF and the OECD websites. After 22 December these documents can be easily found, due to an improved lay out of the site and an improved presentation of the content and an improved general search page.
- The search engine and lay out of the IMF website are very good. Documents are found easily and quickly. The number of documents appears to be limited in comparison with the DG ECFIN website.
- With regard to the OECD website, the timeliness of information for the press is very good, and in general the lay out is good. On the other hand, for the general public the documents of the OECD are not available on the website and the search engine does not work very well.

Conclusions from the online questionnaire

The main conclusions of the online survey with respect to external communication are:

- The information that DG ECFIN sends by email is highly valued by the respondents. Best valued are the characteristics ‘accessible / understandable’ (69% good, 8% excellent) and ‘reliable’ (70% good, 16 % excellent). Over 65% of the respondents found the information to be good or excellent in terms of it being ‘up-to-date’, ‘complete’, ‘concise’, ‘relevant/useful’ and ‘authoritative’. 64% of the respondents referred to the DG ECFIN website, when looking for more information after receiving an email related to fiscal surveillance.
- Approximately 60% of the respondents found press released related to fiscal surveillance at least easy to find while 32% found it either difficult or very difficult to find. With respect to rating of the information in the press releases related to fiscal surveillance, over 50% found this information to be either of good or excellent quality in terms of being ‘accessible / understandable’, ‘reliable’, ‘up-to-date’, ‘complete’, ‘concise’, ‘relevant/useful’ and ‘authoritative’. Of the 66% of respondents who required additional information after receiving the press release referred to the DG ECFIN website.
- Most respondents found the section on the SGP on the website of DG ECFIN easy to find. In addition, the majority of the respondents indicate that the information about country specific and other documents is easy or fairly easy to find on the website. Also with respect to the categories concise, complete, useful and authoritative, the general picture is positive.

- Approximately half of the total respondents found the IMF website to be worse in terms of being accessible/understandable, up-to-date and concise. 31% and 35% of the respondents considered the IMF website to be better than the DG ECFIN website in terms of it being relevant/useful and authoritative. A large number of respondents had no opinion on this matter. 45% of the total respondents found the OECD website to be worse in terms of being accessible/understandable. In terms of being reliable, up-to-date, complete, concise, relevant, useful and authoritative on average about one third considered the OECD website much worse. About 20 to 25% found the OECD website much better. Approximately one-third of respondents had no opinion on this matter.

7.6 Recommendations

Given the conclusions of the previous sections, overall the answer to the overall evaluation question on how DG ECFIN conducts its activities in the area of budgetary surveillance, given the rules set in 2005 with the reform of the Stability and Growth Pact is positive. The analyses in terms of timeliness, efficiency, quality, relevance and external communication in the previous chapters contained, nonetheless, a number of indications and/or explicit suggestions how in the future the budgetary surveillance activities could be strengthened even more. The following sub-sections indicate key recommendations which relate especially to quality and efficiency. The few suggestions concerning relevance and external communication are combined given their close inter-relationship.

7.6.1 Recommendations concerning efficiency

The recommendations concerning efficiency are to be seen against the partial scope of the analysis. It did not include a full functional review. Nonetheless, the Commission may want to consider the following general recommendations.

Recommendation:	Strengthen the conditions for new staff who start to work at the country desks.
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- As mentioned in chapter 3, new staff primarily learn on the job by doing, supported by guidance of the unit managers to the desks officers. Some staff have argued for having more training options to get be prepared for their new posts. In addition, a few staff members, who were interviewed, indicated that they would like to be supported at the start of their work by their predecessor. The actions to be taken appear to be clear, although not easily to implement as, for instance, this would require some changes in the internal staff mobility policy of the Commission in general. In addition, a training needs assessment may have to be conducted to understand better the preferred training options. New staff that starts to work at the country desks would be better prepared for the high workload with which they will be confronted. Moreover, DG ECFIN may want to consider attaching a more experienced desk officer to a new desk officer to function as some sort of ‘coach’, at least for the first year.

Recommendation:	Address the high turnover of staff at the country desks.
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- From the interviews it became forward that the turnover of staff at the country desks is rather high; on average a country desk officer stays two to three years at his or her

post, although there are exceptions. Partly this is related to the high workload which is generally perceived as high. On the other hand, it was mentioned that from a career perspective a country desk officer would prefer to move to the horizontal unit. In addition, it was indicated that after three vintages, the work would become less challenging. Other possible causes were not further identified.

Basically, high turnover affects organisations in several ways. First, staff members leave, and they often take valuable country and institutional knowledge with them. Secondly, from a managerial perspective high turnover affects management as managers have to spend more time on teaching and supporting new staff. In addition, more experienced staff members may help new staff to learn and progress more quickly. DG ECFIN may want to examine more systematically the reasons for the high turnover of staff at the country desks. This would allow understanding the possible measures to address the high staff turnover. Besides addressing workload issues, it probably may consider to make the post at the country desks more attractive, for instance by considering (again) working in terms of country teams (see below) or other measures. At least it would be useful to understand the causes in order to specify appropriate measures.

Recommendation:	Consider to establish / work more with country teams.
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- The benchmark led to the conclusion that the mainly geographical organisation of the budgetary surveillance work at the EC is in contrast with the combined geographical and functional approach towards surveillance in the other two international organisations. The internal organisation of the IMF and OECD appear to allow more flexibility in terms of country teams. In addition, more flexibility in terms of the use of human resources exists in the other two international organisations. The IMF is working, for instance, as well with temporary contracts to attract specialists to cope with certain peak periods.

Although there are reasonable explanations for the relatively limited flexibility of use of staff across country desks due to the need to have country-specific knowledge, DG ECFIN might consider to establish / work more in terms of country teams, bringing together where and when necessary the necessary expertise when addressing overall country-specific issues. This may lead as well to increasing the attractiveness of the work at the country desks, especially also for those desk officers having specific knowledge on certain topics.

Recommendation:	Streamline the calendars of the different outputs
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- The analysis indicated that although the calendars for the different outputs are clear, nonetheless, a few interviewees would like to see better streamlining of the calendars of the different outputs. This would allow to reduce the workload at certain peak moments.

7.6.2 Recommendations concerning quality

Both the assessment of the soundness of the analysis in the assessments produced by DG ECFIN and the IMF benchmarking exercise provide a number of suggestions to further improve the technical analysis of the surveillance process. Recommendations with the aim of achieving this are as follows:

Recommendation:	Include assessments of vulnerability in the future assessments.
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- A key aspect of the preventive arm of the SGP is the credibility of the adjustment path towards the MTO. In this regard, key ingredients are the presence of plausible macroeconomic and, in particular, growth assumptions. The plausibility of the output projections in the SCPs and the MFAs could be subject to further scrutiny by taking account of external balance and financial market indicators. This approach is commonly followed in the IMF country reports which pay particular attention to so-called *vulnerability* indicators that are used as inputs in the assessment of the risks to domestic and external stability. While those vulnerability indicators are not directly required for the macro-fiscal assessment, they nevertheless point to potential future adverse economic developments that might endanger fulfilment of the fiscal criteria in the future. These indicators are related to: (i) external position (e.g. exports, imports, terms of trade, current account, foreign assets and liabilities of the financial sector, real exchange rates, real unit labour costs, etc); (ii) financial and credit market (e.g. T-bill yields, spreads, stock market index, real estate prices, credit to private sector and to non-financial enterprises, etc); (iii) financial and banking sector risks (capital adequacy, asset quality, profitability, liquidity and sensitivity to market – interest rate and exchange rate – risks). Hence, similar assessments of vulnerability might be considered in future development of the MFAs. This might allow a more comprehensive evaluation of the reliability of the macroeconomic projections envisaged in the updates. In addition, there would be merit in analysing the possible common risks to the projections. Finally, it might be useful to provide a systematic account of the past performance of fiscal authorities in projecting the macroeconomic scenario in relation to the other Member States.

Recommendation:	Include an extended assessment of the sources of the deviations from budgetary plans based on all data available from the previous updates and on a comparison with the (past) performance of the other Member States.
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- Similarly, consistent with the Council recommendation on enhancing the fiscal credibility of the adjustment path and the accountability of the fiscal authorities of the Member States, the Commission could provide (i) an account of the risks associated with external imbalances and financial market developments, and (ii) an extended assessment of the sources of the deviations from budgetary plans based on all data available from the previous updates and on a comparison with the (past) performance of the other Member States. The “Budgetary strategy” section already contains a decomposition of the deviations of the current-year projected outcomes from the revenue/expenditure/budget targets into a base effect, a GDP growth effect on the denominator and a revenue/expenditure growth effect. However, in view of the expanding number of vintages becoming available the decomposition could be put to a

more systematic scrutiny to look more explicitly for common patterns over time and across countries in the sources of the deviations from targets. Each year additional data become available³⁰ and it seems that by now there is scope for doing a more formal econometric analysis of the sources of systematic biases both in the overall budget and in the components of budget (in particular, spending). One could also more systematically investigate how biases are related to the projection horizon in the SCPs. It would also be useful to explore whether revised (final) macroeconomic and budgetary figures differ systematically from real-time assessments of the current cyclical situation and, even in cases when there are no systematic biases, to explore how large the deviations tend to be. This may have important policy implications as more uncertainty about current conditions would generally point to the optimality of more prudent (fiscally conservative) policies.

While such an analysis would probably be beyond the scope of individual MFAs, it might well fit into the Public Finance Report. Individual MFAs can then use the results of the broader analysis as a reference for discussing the decompositions for individual countries and for giving advice on how to close potential gaps between targets and outcomes.

Recommendation:	Include a more in-depth analysis of the structure and riskiness of the gross public debt in terms of maturity (fixed versus floating rate obligations), structure and share of assets in percent of total liabilities, foreign currency denomination of assets and liabilities in percent of total liabilities.
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- A proper risk assessment of the sustainability of debt may benefit from a more in-depth analysis of the structure and riskiness of the gross public debt in terms of maturity (fixed versus floating rate obligations), structure and share of assets in percent of total liabilities, foreign currency denomination of assets and liabilities in percent of total liabilities. Such an assessment is commonly followed in the IMF country reports. The analysis might be of particular use for identifying vulnerabilities in crisis situations like the current one. Under the current circumstances in which financial markets are very risk averse, countries that have to roll over large amounts of debt (often countries with financing at short maturities) or that are outside the euro-area but have large euro-denominated liabilities are at particular risk. An obstacle to this kind of analysis is the potential lack of detailed data on the structure of the public debt, as these data have so far not been requested from the Member States. A more in-depth analysis along these lines might also be a topic for a separate study (or for a chapter in the Public Finance Report). Nevertheless, some assessment along the lines discussed here might be included in individual MFAs, in particular when there are reasons to start worrying about the structure of the public debt.

Recommendation:	Include a more in-depth analysis of the risks associated with contingent liabilities.
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³⁰ In some cases it may be difficult to make the data comparable over years, for instance, if definitions (or coverage of items within existing definitions) have been changed by Member States. This complicates data comparability. The longer the time horizon, the more problems may be encountered.

- Future rounds of MFAs may want to assess risks associated with contingent liabilities (such as guarantees supporting the interbank market and deposit insurance) created by the governments’ interference with their financial sectors. Those risks have become more important than before. The availability of relevant data for a full assessment in this direction, however, may represent an objective complication which needs to be addressed first.

Recommendation:	Examine further the inclusion of more in-depth analysis of more country-specific features of the budget of the Member States
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- In general, the comparability and cross-country consistency of the data should be balanced with the need to take into account country-specific features of the budget of the Member States. For instance, as appreciated in the MFAs, gas revenues are an important component of the Dutch government balance. As a result, commonly agreed measures of the structural and cyclically-adjusted government balance for the Netherlands are imperfect measures to evaluate the fiscal effort towards the MTO. A systematic account of “robust” measures which correct for gas revenues might be informative in the specific case of the Netherlands. Other countries may be subject to similar particularities (e.g., the UK as an oil producer) and some assessment of the adequacy of an MTO based on the structural government balance might be desirable in the case of individual countries.
- The IMF benchmark provided additional suggestions related to the contents of future MFAs, such as:
 - Future MFAs could consider *fiscal transparency* as a specific topic, when warranted. Deficits hidden by a lack of transparency undermine the long-run financial solidity of the public sector and will eventually make it harder to achieve the MTOs. Occasional explicit attention to fiscal transparency in the MFAs should help to induce governments to take this issue sufficiently seriously.
 - Explicit consideration of *the scope (and incentives) for subnational authorities to pass deficits on to the central government* may deserve attention also in the future development of the MFAs. Of course, the importance of the issue differs across countries, as EU countries feature widely-differing subnational government structures;
 - The Commission may want to consider scrutinising *in more depth tax systems* of the Member States, in particular those in which the tax burden and headline tax rates are high. Future MFAs could play a useful role, pointing to the potential benefits of tax reform in achieving MTOs in a way that avoids as much as possible distortions to the rest of the economy.

Recommendation:	Given the current economic and financial crisis, continue to examine what frameworks or budgetary rules would be most suitable to withstand large negative shocks based upon best practices on frameworks and budgetary rules.
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- The current crisis would provide an opportunity to investigate what national frameworks or budgetary rules in the Member States would be most suitable to withstand large negative shocks. While most countries now exceed the 3% deficit limit, there are substantial differences among them and it is far from clear that those

differences can be attributed only to external developments hitting one country harder than the other country.

Recommendation:	Consider in future reports to attach likelihoods attached to various alternative scenarios.
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- Given the many uncertainties the analysis would be strengthened when likelihoods are attached to various alternative scenarios. Preferably, one would see stochastic simulations taking the various uncertainties into account, but this may not be easily implemented. Nevertheless, to give one example: an above-baseline increase in employment produces higher GDP growth and at the same time a smaller fall in the interest rate (as capital-labour ratios will increase by less). Stochastic simulation takes into account that these events are most likely to occur jointly and thus also attaches a likelihood to a given adjustment need.

Recommendation:	Pay more explicit attention to public assets in future sustainability reports.
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- The analysis pays a lot of attention to initial gross public debt (as an indicator of the need to adjust) and the development of the gross debt. The recent forced public interventions in the banking sector have in some instances had a substantial positive effect on the gross debt. However, this is counterbalanced by an increase in public assets (at least to the extent governments have paid a fair price for their stakes). Hence, basing adjustment need on gross debt may in some instances lead to a too pessimistic picture. More explicit attention to public assets in the sustainability assessments might be generally desirable, especially at the current moment. The issue is to some extent addressed in 2005 Public Finance Report.

Recommendation:	Consider to address in future sustainability reports issues related to intergenerational equity.
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- At present, the Sustainability Report does not address intergenerational equity. This would require information on the distribution of social benefits, public spending and taxes to different age cohorts in the past and in the future. Such information is hard to obtain. In addition, the calculations make certain assumptions, such as a unit elasticity of health care demand with respect to income. Therefore, it is difficult to take a stand on intergenerational equity. Moreover, the distribution of costs and benefits of ageing is a matter of political preference in the Member States. Nevertheless, it might be insightful to provide some information on how long various cohorts are expected to make use of ageing related spending (in particular, pensions and health/long-term care) and report some alternative time paths of structural budgetary adjustment that does some justice to the different length of retirement periods and different life expectations of different cohorts.

Recommendation:	Examine in future work on sustainability issues related to investment in human capital during working life and changes in the wage structure
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- The Sustainability Report analysed emphasizes the need to increase employment, in particular that of the older worker. Importantly, not only incentives need to be given to employees to work longer, also appropriate incentives need to be given to employers to

employ older workers longer. This might be achieved by more investment in human capital during working life and changes in the wage structure (to reduce the cost of older workers). This would deserve discussion in further work on sustainability.

Recommendation:	Examine in the role of idiosyncratic factors for the sustainability of individual countries.
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- It will generally be useful to explore the role of idiosyncratic factors for the sustainability of individual countries, even when this is covered by other Commission outputs. For example, the Netherlands is expected to face a slowly increasing deterioration of the structural budget due to depleting natural gas reserves in the longer-run. In this regard it might then be relevant to ask whether the current gas revenues are used in a way that promotes fiscal sustainability. A phenomenon that might affect countries in rather specific ways is the costs of climate change. For example, countries with parts below the sea level or with dry parts could face larger costs to adapt to climate change.

7.6.3 Recommendations concerning relevance and external communication

Recommendation:	To include systematically specific reference to previous recommendations and invitations in the DG ECFIN's assessments of the SCPs.
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- The analysis concluded that the public debate in Member States typically has a focus on national budgetary processes and documents. A large share of the impact on national policy debates goes through processes 'below the surface' that are less clear to the public. Through these 'below the surface processes' the Commission's work affects national budgetary processes and documents, and hence the public debate. An option for increasing the effect of DG ECFIN's outputs on (public) policy debates in the Member States would be to include *systematically* more specific reference to previous recommendations and invitations in the DG ECFIN's assessments of the SCPs as to 'track' in time the history related to the specific Member State. This may increase the effectiveness of peer pressure and thereby increase DG ECFIN's effect on (public) policy debates.

Recommendation:	Consider to make public the macro-fiscal assessments at the same time as the press release concerning Commission recommendations for a Council opinion.
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- The timeliness of the publication of the evaluated documents regarding SCPs is good when the Commission recommendations for a Council opinion are concerned. However, the underlying analysis prepared by DG ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP. DG ECFIN explained that this would allow for a further check of layout and content. The visibility of the underlying analysis done by DG ECFIN would increase if journalists would be able to check the information of the Commission at the same time as the press releases would be made public, in particular as news items may become 'old' news very quickly and would miss the necessary media attention. Therefore, internal organisation processes, such as checking of layout and content by the time of adoption of the recommendation of a Council opinion

(which is not the case under the current arrangements), may need to be adjusted to allow publication of DG ECFIN's assessment at the same time as the release of the press release.

Annex I: Legal framework

Preventive arm

The aim of Council Regulation (EC) No 1466/97 is to monitor Member States' budgetary positions and coordinate their economic policies, by way of a preventive measure to ensure budgetary discipline during the third stage of economic and monetary union. To this end, the Regulation provides for Stability Programmes (for Member States in the euro zone) and Convergence Programmes (for Member States outside the euro zone) that the Member States are supposed to submit to the Commission.

Each Member State has a medium-term objective (MTO) for its budgetary position. The MTOs differ between Member States to take into account the diversity of the economic and budgetary positions and developments, as well as of fiscal risk to the sustainability of public finances. The country-specific MTO is defined in structural terms (e.g. cyclically-adjusted, net of one-off and other temporary measures) and should meet these requirements: (i) provide a safety margin with respect to the 3% of GDP reference value, (ii) ensure rapid progress towards sustainability, and (iii) taking (i) and (ii) into account, allowing room for budgetary manoeuvre, in particular considering the need for public investment.

For the Member States that have adopted the euro and for those participating in the ERM II, the MTOs are between -1% of GDP for low debt / high potential growth countries and budgetary balance or surplus for high debt / low potential growth countries. A Member State's medium-term objective may be revised when a major structural reform is undertaken or every four years. For Member States that are outside the euro area and do not participate in the ERM II, the country-specific MTOs are defined to ensure the respect of the three criteria outlined above.

Member States present their MTO in their SCPs. The latter programmes must include the following information: (i) a MTO, an adjustment path for achieving the surplus or deficit aspects of the objective, and a forecast regarding the general government debt ratio; (ii) the main assumptions underlying the economic outlook (growth, employment, inflation and other important variables); (iii) an assessment and a detailed analysis of the budgetary measures and other economic policy measures taken and/or proposed to achieve the objectives of the programmes; (iv) an analysis of how changes in the main economic assumptions would affect the budgetary and debt positions; (v) where applicable, the reasons for a deviation from the adjustment path needed to achieve the MTOs.

In the view of the fundamental role of the SCPs in the process of multilateral surveillance, it is important that the information content is suitable and comparable across countries. In order to facilitate their examination by the Commission, Economic and Financial Committee (EFC) and the Council, a Code of Conduct ("*Specifications on the*

implementation of the Stability and Growth Pact and guidelines on the format and content of the stability and convergence programmes", endorsed by the Ecofin Council of 11 October 2005) was set out in which guidelines on the content and format of the SCPs are provided. In particular, the model structure for the SCPs set out in Annex 1 of the Code of Conduct consists of: (1) Overall policy framework and objectives; (2) Economic outlook; (3) General government balance and debt; (4) Sensitivity analysis and comparison with previous update; (5) Quality of public finances; (6) Sustainability of public finances and (7) Institutional features of public finances. The quantitative information of the programmes should be presented according to a standardized set of tables according to Annex 2 of the Code of Conduct.

On the basis of assessments by the Commission and the EFC, the Council examines: (i) whether the economic assumptions on which the programme is based are plausible; (ii) the medium-term budgetary objective (MTO) presented by the Member State and whether the adjustment path towards it is appropriate; (iii) whether measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the MTO over the cycle; (iv) whether the economic policies of the Member State in question are in line with the broad economic policy guidelines; (v) the evolution of the debt ratio and the outlook for the long-term sustainability of the public finances.

Member States that have not yet achieved their MTO, should take steps to achieve it over the cycle. The adjustment effort should be higher during "good times" (i.e. a period where output exceeds its potential, taking into account tax elasticities), and could be more limited in "bad times". Member States of the euro area and of the ERM II should pursue an annual adjustment in cyclical adjusted terms, net of one-offs and other temporary measures, of 0.5% of GDP as a benchmark.

For Member States that have achieved it, the Council may allow a temporary deviation from the MTO on condition that an appropriate safety margin is preserved with regard to the 3% of GDP reference value. In addition, the budgetary position is expected to return to the medium-term budgetary objective within the period covered by the programme. Pro-cyclical fiscal policy in "good times" should be avoided.

When making its assessments, the Council must take account of the implementation of major structural reforms that have a verifiable positive effect on the long-run sustainability of public finances, in particular health, pension and labour market reforms. Special attention is paid to pension reforms introducing a multi-pillar system, for their direct negative impact on the government balance.

The Council is to examine the programme within three months of its submission. On a recommendation from the Commission and after consulting the EFC, the Council delivers an opinion on the programme. Where it considers that the objectives and content of a programme should be strengthened, the Council can invite the Member State concerned to adjust it.

Updated programmes are examined by the EFC on the basis of assessments by the Commission and, if necessary, the Council.

Corrective arm:

According to Article 104(2) of the Treaty, the Commission shall monitor compliance with budgetary discipline on the basis of two criteria: (i) whether the ratio of the planned or actual government deficit to GDP exceeds the reference value of 3%, unless either the ratio has declined substantially and continuously and reached a level that comes *close to the reference value* or, alternatively, the excess over the reference value is only *exceptional* and *temporary* and the ratio remains close to the reference value; and (ii) whether the ratio of government debt to GDP exceeds the reference value of 60%, unless the ratio is *sufficiently diminishing and approaching the reference value at a satisfactory pace*.

If a Member State does not fulfil the requirements under one or both of these criteria, under Article 104(3) of the Treaty, the Commission will prepare a report, which will consider whether the excess over the reference value is only exceptional and temporary and whether the ratio remains close to the reference value.

A deficit exceeding the threshold of 3% is considered *exceptional* when (i) it results from an *unusual event* outside the control of the Member concerned which has a major impact on the financial position of the government or (ii) it results from a *severe economic downturn* (negative annual GDP growth or a cumulative fall in production over a prolonged period of very low annual growth).

The excess over the reference value is considered *temporary* if the forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

The Commission report should also take into account whether the government deficit exceeds government investment expenditure and take into account *all relevant factors*: (i) medium-term economic position (potential growth, cyclical conditions, implementation of policies in the context of the Lisbon agenda and policies to foster R&D and innovation); (ii) the medium-term budgetary position (e.g. fiscal consolidation efforts in “good times”, debt sustainability, public investment and overall quality of public finances); and (iii) other factors considered relevant by the Member State and the Commission.

In accordance with Article 104(4), within two weeks of the adoption of the report, the Economic and Financial Committee (EFC) formulates an opinion. The Commission takes this opinion into account, and if it considers an excessive deficit to exist, addresses an opinion (in accordance with Article 104(5)) and recommendation for a Council decision on the existence of an excessive deficit (in accordance with Article 104(6)).

On the basis of the Commission recommendation, and within four months of the reporting dates established in Regulation (EC) No 3605/93, the Council decides, by a qualified majority, whether an excessive deficit exists. The Council also considers any observations made by the Member State concerned.

If the Council decides that an excessive deficit exists, when it makes that decision, it simultaneously issues recommendations to the Member State concerned, based on a recommendation of the Commission (in accordance with Article 104(7)). The Council establishes a deadline of no more than six months for effective action to be taken. The correction of the excessive deficit should be completed in the year following its identification, unless there are special circumstances. In its recommendations, the Council is to request the Member State to achieve an annual improvement in the structural balance of at least 0.5% of GDP as a benchmark.

Upon the expiry of the six-month deadline, the Commission assesses the corrective measures taken by the Member State concerned and informs the Council. In case of a positive assessment, the Commission adopts a communication to the Council; in case of a negative one, a recommendation for a Council decision under Article 104(8) that action has not been adequate. A third possibility is a Commission recommendation for a revised Council recommendation under Article 104(7), which can only be adopted if action taken has been adequate but unexpected adverse economic events with major unfavourable consequences for government finances have occurred after the adoption of the original recommendation. Although the Treaty foresees that, where it establishes that there has been no effective action in response to its recommendations in accordance with Article 104(8), the Council may make its recommendations under Article 104(7) public, in practice all Council recommendations under Article 104(7) to date have been made public with the agreement of the Member State concerned on the day of adoption by the Council of its Article 104(7) recommendations..

Upon failure of the Member State to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State, within two months of the Article 104(8) decision, to take remedial action in accordance with Article 104(9). This step (and the following step under Article 104(11)) only applies to euro area countries. For non euro area countries, a Council decision under Article 104(8) is followed by a new Council recommendation under Article 104(7).

Where the conditions to apply Article 104(11) are met, the Council shall impose sanctions in accordance with Article 104(11). Any such decision shall be taken no later than two months after the Council decision giving notice to the participating Member State concerned to take measures in accordance with Article 104(9).

According to Article 104(12), a Council decision on the existence of an excessive deficit is to be abrogated, following a Commission recommendation, when the excessive deficit has been corrected.

Annex II: Analysis of timeliness of the SCPs

Table II.1 presents the analysis of the timeliness of the SCPs

Table II.1 Analysis of timeliness of the SCPs

Country	2005-06		2006-07		2007-08		2008-09			
	Original language	English version	Original language	English version	Original language	English version	Original language	English version	Addendum (original)	Addendum (English)
BE	05.12.2005	14.12.2005	13.12.2006	20.12.2006	21.04.2008 (elections)	05.05.2008	06.04.2009	28.04.2009	-	-
BG			05.01.2007	05.01.2007	07.12.2007	07.12.2007	27.11.2008	27.11.2008	23.12.2008	23.12.2008
CZ	24.11.2005	29.11.2005	15.03.2007 (elections)	15.03.2007	30.11.2007	04.12.2007	20.11.2008	04.12.2008	30.12.2008	30.12.2008
DK	30.11.2005	30.11.2005	30.11.2006	30.11.2006	21.12.2007 (elections)	17.01.2007	04.12.2008	05.01.2009	19.12.2008	19.12.2008
DE	22.02.2006 (elections)	22.02.2006	30.11.2006	30.11.2006	05.12.2007	11.12.2007	03.12.2008	03.12.2008	30.01.2009	-
EE	01.12.2005	01.12.2005	01.12.2006	03.01.2007	29.11.2007	11.01.2007	04.12.2008	05.01.2009	-	-
IE	07.12.2005	07.12.2005	06.12.2006	06.12.2007	05.12.2007	05.12.2007	14.10.2008	14.10.2008	09.01.2009	09.01.2009
EL	21.12.2005	21.12.2005	18.12.2006	18.12.2006	27.12.2007	27.12.2007	30.01.2009	30.01.2009	06.02.2009	06.02.2009
ES	30.12.2005	30.12.2005	28.12.2006	28.12.2006	21.12.2007	27.12.2007	16.01.2009	21.01.2009	-	-
FR	13.01.2006	23.01.2006	06.12.2006	after 22.01.2007	30.11.2007	17.01.2008	22.12.2008	05.02.2009	-	-
IT	23.12.2005	24.01.2006	05.12.2006	05.12.2006	30.11.2007	13.12.2007	06.02.2009	25.02.2009	-	-
CY	14.12.2005	14.12.2005	06.12.2006	06.12.2006	07.12.2007	07.12.2007	13.02.2009	13.02.2009	-	-
LV	30.11.2005	09.12.2005	12.01.2007 (elections)	12.01.2007	29.11.2007	07.01.2007	14.01.2009	03.02.2009	-	-
LT	01.12.2005	27.01.2006	13.12.2006	20.12.2006	28.12.2007	23.01.2007	21.01.2009	03.02.2009	-	-
LU	28.11.2005	13.12.2005	24.11.2006	05.12.2006	27.10.2007	19.11.2007	07.10.2008	13.11.2008	07.10.2008	-
HU	01.12.2005	10.12.2005	01.12.2006	08.12.2006	30.11.2007	07.12.2007	19.12.2008	31.12.2008	-	31.12.2008
MT	06.01.2006	06.01.2006	07.12.2006	07.12.2006	30.11.2007	30.11.2007	02.12.2008	02.12.2008	-	22.12.2008
NL	22.12.2005	10.01.2006	22.11.2006	22.11.2006	29.11.2007	29.11.2007	28.11.2008	28.11.2008	-	19.12.2008

Country	2005-06		2006-07		2007-08		2008-09			
	Original language	English version	Original language	English version	Original language	English version	Original language	English version	Addendum (original)	Addendum (English)
AT	30.11.2005	06.12.2005	29.03.2007 (elections)	30.03.2007	21.11.2007	29.11.2007	21.04.2009	24.04.2009	-	-
PL	19.01.2006 (elections)	31.01.2006	30.11.2006	21.12.2006	26.03.2008 (elections)	17.04.2008	15.01.2009	15.01.2009	-	-
PT	15.12.2005	21.12.2005	15.12.2006	23.12.2006	14.12.2007	20.12.2007	30.01.2009	30.01.2009	-	-
RO			25.01.2007	31.01.2007	05.12.2007	17.12.2007	03.06.2009	03.06.2009	-	-
SI	08.12.2005	08.12.2005	07.12.2006	07.12.2006	30.11.2007	07.12.2007	23.04.2009	24.04.2009	-	-
SK	01.12.2005	21.12.2005	01.12.2006	14.12.2006	29.11.2007	29.11.2007	30.04.2009	30.04.2009	-	-
FI	24.11.2005	24.11.2005	30.11.2006	30.11.2006	29.11.2007	29.11.2007	18.12.2008	18.12.2008	-	18.12.2008
SE	24.11.2005	24.11.2005	07.12.2006	07.12.2006	27.11.2007	27.11.2007	01.12.2008	01.12.2008	-	-
UK	14.12.2005	14.12.2005	18.12.2006	18.12.2006	30.11.2007.	30.11.2007.	18.12.2008	18.12.2008	-	-

Annex III: Timeline analysis of the early warnings and policy advice

Table III.1 presents the analysis of the timeliness of the early warnings and policy advice under the preventive arm of the SGP.

Table III.1 Timeline analysis of the early warnings and policy advice under the preventive arm of the SGP

Country	Commission recommendation to the Council to address an early warning	Council Recommendation with a view to giving early warning in order to prevent the occurrence of an excessive deficit	Council Decision to close an early warning procedure	Commission Recommendation providing a policy advice on the economic and budgetary policy
Italy	28/04/2004		05/07/2004	
			Was never started	
France				28/05/2008
Romania				12/06/2008

Annex IV: Timeline analysis of the Corrective Arm of the SGP

Table IV.1 presents the timeline analysis of the Corrective Arm of the SGP.

Table IV.1 Timeline analysis of the Corrective Arm of the SGP

Country	Start year		Stage 0	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6	Stage 7	Stage 8	Stage 9
			EDP notifications	Commission Report – Article 104(3)	EFC Opinion to Commission – Article 104(4)	Commission opinion on the existence of an excessive deficit – Article 104(5)	Council decision – Article 104 (6)	Council recommendations to MS – Article 104(7)	Council decision on no effective action – Article 104(8)	Council gives notice to MS Article – 104(9)	Impose fines – Article 104(11)	Council's decision to abrogate original decision – Article 104 (12)
		<i>Max time before above stage should be entered into (in months) acc. to legal text</i>			Within 2 weeks of the Commission adopting the report prepared in accordance with Article 104 (3)		Within four months of the reporting dates established in Regulation (EC) No 3605/93	Within four months of the reporting dates established in Regulation (EC) No 3605/93	If no action has been taken by MS within six months of the identification of an excessive deficit	Within two months of decision establishing that no effective action has been taken	Within four months of Council giving notice to MS	
Italy	2005		01/03/2005	07/06/2005	29/06/2009	29/06/2005	28/07/2005	28/07/2005				03/06/2008
UK	2005		01/08/2005	21/09/2006	30/09/2005	11/01/2006	24/01/2006	24/01/2006				09/10/2007
	2008		01/03/2007	11/06/2008	25/06/2008	02/07/2008	08/07/2008	08/07/2008	27/04/2009			
Portugal	2005		01/04/2004	22/06/2005	04/07/2005	20/07/2005	20/09/2005	20/09/2005				03/06/2008
Poland	2004		01/04/2004	12/05/2004	24/05/2004	24/06/2004	05/07/2004	05/07/2004	28/11/2006			08/07/2008
Slovakia	2004		01/04/2004	12/05/2004	24/06/2005	Jun-04	05/07/2004	05/07/2004				03/06/2008
Cyprus	2004		01/04/2004	12/05/2004	25/05/2004	24/06/2004	05/07/2004	05/07/2004				11/07/2006
Malta	2004		01/04/2004	12/05/2004	24/05/2004	24/06/2004	05/07/2004	05/07/2004				05/06/2007
	2009		01/10/2008	13/05/2009	28/05/2009	24/06/2009	07/07/2009	07/07/2009				
Greece	2004		01/04/2004	19/05/2004	02/06/2004	24/06/2004	05/07/2004	05/07/2004	18/01/2005	17/02/2005		05/06/2007
	2009		01/10/2008	18/02/2009	27/02/2009	24/03/2009	27/04/2009					
Germany	2002		01/10/2002	19/11/2002	29/11/2002	08/01/2003	21/01/2003	21/01/2003		14/03/2006		05/06/2007
France	2003		01/10/2002	02/04/2003	13/04/2003	07/05/2003	03/06/2003	03/06/2003				30/01/2007

Country	Start year		Stage 0	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6	Stage 7	Stage 8	Stage 9
			EDP notifications	Commission Report – Article 104(3)	EFC Opinion to Commission – Article 104(4)	Commission opinion on the existence of an excessive deficit – Article 104(5)	Council decision – Article 104 (6)	Council recommendations to MS – Article 104(7)	Council decision on no effective action – Article 104(8)	Council gives notice to MS Article – 104(9)	Impose fines – Article 104(11)	Council's decision to abrogate original decision – Article 104 (12)
	2009		06/02/2009	18-02-2009	27/02/2009	24/03/2009	27/04/2009	27/04/2009				
Hungary	2004		01/04/2004	12/05/2004	24/05/2004	24/06/2004	05/07/2004	05/07/2004	18/01/2005			
								08/03/2005 (2 nd recommendation)	08/11/2005 (2 nd Council Decision)			
								10/10/2006 (3 rd recommendation)				
								06/07/2009 (4 th recommendation)				
Czech Republic	2004		01/04/2004	12/05/2004	24/05/2004	24/06/2004	05/07/2004	05/07/2004	10/07/2007			03/06/2008
								09/10/2007 (2 nd recommendation)				
Ireland	2009		01/10/2008	18/02/2009	27/02/2009	24/03/2009	27/04/2009	27/04/2009				
Latvia	2009		01/10/2008	18-02-2009	27/02/2009	02/07/2009	07/07/2009	07/07/2009				
Spain	2009		01/10/2008	18-02-2009	27/02/2009	24/03/2009	27/04/2009	27/04/2009				

Annex V: Cross-country timeliness analysis

Table V.1 presents the analysis of the cross-country timeliness.

Table V.1 Cross-country timeliness analysis

Country	EDP start date	EDP end date	Was there a legal requirement for initiating an EDP based on the notifications by MS:	Observations/Comments
Czech Republic	2004	2008	Y	
Germany	2002	2007	Y	
Ireland	2009		Y	
Greece	2004	2007	Y	
	2009		Y	
Spain	2009		Y	
France	2003	2007	Y	
	2009		Y	
Italy	2005	2008	Y	
Cyprus	2004	2006	Y	
Latvia	2009		Y	
Hungary	2004		Y	
Malta	2004	2007	Y	
	2009		Y	
Netherlands	2004	2005	Y	
Poland	2004	2008	Y	Why was EDP not abrogated in 2007? According to the 2006 Autumn forecasts, the deficit foreseen in 2007 was 2%. This figure is excluding the pension reforms. Including pension reforms the deficit would increase to 4% and would therefore not in line with the council recommendations for bringing the deficit down to 3.7% in 2007. Source: Commission Report

Country	EDP start date	EDP end date	Was there a legal requirement for initiating an EDP based on the notifications by MS:	Observations/Comments
Portugal	2005	2008	No	2005 Spring forecast shows EDP figure for 2004 as 2.9%. According to the June 2005 update of the Stability Programme submitted by Portugal the deficit for 2005 was expected to be 6.2%, 4.8% in 2006, 3.9% in 2007 and 2.8% in 2008. Hence EDP started based on <i>planned</i> figures. Source: Commission Report
Slovakia	2004	2008	Y	
United Kingdom	2004	2007	Y	
	2008		Y	

Annex VI: Analysis of press releases and related documents on Commission assessments of Stability and Convergence programmes and Commission steps under the Excessive Deficit Procedure

Analysis of press releases related to SCP

Netherlands, 2008

Press release: 23 January 2008, IP/08/75

The press release under consideration discusses the Commission's recommendation for a Council opinion of the stability programmes of Germany, Luxembourg, the Netherlands and Finland. The part on the Netherlands indicates that the budgetary stance from 2008 onwards is in line with the SGP. In the long term sustainability of public finances, the Netherlands appears to be at medium risk.

Related documents are:

- 23/01/08: The Recommendation for a Council Opinion, SEC 2008/60 final.
- 06/02/08: The Netherlands, Macro Fiscal Assessments ECFIN/55716/08.

The table below provides the analysis along the three criteria mentioned: content, timeliness and accessibility.

Table VI.1 Netherlands, 2008

Content	Timeliness	Accessibility
The part on the Netherlands is approximately 18 lines.	The timeliness of the publication of the evaluated documents regarding SCPs is good when the	The press release is hard to find. It is not in the database of DG ECFIN and must be found in another
The data of the press release are found in the related documents.	Commission recommendations for a Council opinion are concerned:	database: the Europa Press release rapid data base. The search criteria are complex and general and they
The assessment of DG ECFIN (analysis of the November 2007 update of the stability programme) is made public about two weeks (6 February) after the press release.	The press release and the recommendation for a council opinion are issued on the same day (23 01 2008).	very often generate a long list of documents. Only if the researcher is aware of the existence of a particular press release and the day
In the balance of conciseness and	In the press release it is not mentioned when the European	of its release, the press release is easily accessible.

Content	Timeliness	Accessibility
completeness the press release is more concise than complete.	<p>Commission examined the updated stability programmes.</p> <p>The assessment of the stability programme of The Netherlands is made public about two weeks later (6 February).</p> <p>According to DG ECFIN this underlying analysis prepared by ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content (the assessment is a sizeable document)</p> <p>The timeliness would increase substantially when this document is published at the same time as the press release and the Council opinion.</p>	<p>The press release mentions a link to the Commission recommendations for a Council opinion on each programme. These links work and lead to the SGP document database of DG ECFIN. Here documents are found.</p> <p>The document described in the press release as ' Commission's assessment ' is not found In the database. It is not clear to witch document the press release refers to. The press release and the related documents are not easy to understand for journalists (and others) who are unfamiliar with the EU and the Stability and Convergence Programmes.</p>

United Kingdom 2006

Press release 22/2/06, IP/06/199

The press release under consideration discusses the Commission assessment of the convergence programmes of Cyprus, Lithuania, Malta and the United Kingdom. The part on the UK indicates that the outlined budgetary stance may not be sufficient to reach the programmes medium term objective by 2008.

Related documents are:

- 22/2/06: Recommendation for a Council opinion
- 8/03/06: Update of the convergence programme of the UK , an assessment

The table below provides the analysis along the three criteria: content, timeliness and accessibility.

Table VI.2 United Kingdom, 2006

Content	Timeliness	Accessibility
<p>The part about the UK is approximately 28 lines. The data included in the press release is found in the related documents.</p> <p>The assessment made by DG</p>	<p>The press release and the recommendation for a Council opinion are released on the same day (22/02/06). So the timeliness of the publication of the evaluated</p>	<p>The press release is hard to find. It is not in the database of DG ECFIN and must be found in another database: the Europa Press release rapid data base. The search criteria</p>

Content	Timeliness	Accessibility
<p>ECFIN is made public about two weeks after the press release. The press release does not mention the related documents, but there is a link to the database with country-specific Commission assessments: http://ec.europa.eu/economy_finance/about/activities/sgp/year/year20052006_en.htm</p> <p>The balance of conciseness and completeness of the section is good.</p>	<p>documents regarding SCPs is good when the Commission recommendations for a Council opinion are concerned</p> <p>However, the analysis on which the Council's opinion is based (ECFIN's assessment) was made public about two weeks later.</p> <p>According to DG ECFIN this underlying analysis prepared by ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content.</p> <p>The timeliness would increase substantially when this document is published at the same time as the press release and the Council opinion.</p>	<p>are quite complex and general and very often they generate a huge amount of documents. Only if the researcher is aware of the existence of a particular press release and the day of its release, the press release is easily accessible.</p> <p>The press release mentions a link to the Commission recommendations for a council opinion on each programme. These links do not work any more (June 09). The related documents are found in the SGP document database of DG ECFIN.</p> <p>However, in the SGP document database it is indicated that the assessment of the updated convergence programme of the UK is available on 22/02/06. In the SGP database this document appears to be the Commission's recommendation instead of the indicated assessment..</p> <p>The press release and the related documents are not easy to understand for journalists (and others) who are not familiar with the EU and the stability and convergence programme.</p>

Hungary, 2005

Press release 16/2/05, IP/05/184

The press release under consideration discusses both, the assessment of the Commission and the recommendations to diminish the excessive deficit. The analysis focuses on the SCP part.

Related documents are:

- 16/2/05: Recommendation for a Council opinion, SEC/2005/0229
- 2/03/05: December 2004 Update of the Convergence Programme of Hungary (2004-2008), an assessment

The table below provides the analysis along the three criteria: content, timeliness and accessibility.

Table VI.3 Hungary, 2005

Content	Timeliness	Accessibility
<p>The press release is approximately 45 lines. The content is on both the assessment of the convergence programme and the recommendations to diminish the excessive deficit. The part on the assessment of the programme is about 11 lines.</p> <p>The press release only mentions the assessment.</p> <p>The balance of conciseness and completeness of the section is good.</p>	<p>The press release is made public on the same day as the assessment of the convergence programme of Hungary. So the timeliness of the publication of the evaluated documents regarding SCPs is good when the Commission recommendations for a Council opinion are concerned. However, the analysis on which the Council's opinion is based (the Macro Fiscal Assessment) was made public about two weeks later. According to DG ECFIN this underlying analysis prepared by ECFIN is published several days or weeks after the Commission has adopted its recommendation for a Council opinion on the concerned SCP, so as to allow for a further check of layout and content.</p> <p>The timeliness would increase substantially when this document is published at the same time as the press release and the Council opinion.</p>	<p>The press release is hard to find. It is not in the database of DG ECFIN and must be found in another database: the Europa Press release rapid data base. The search criteria are complex and general and they very often generate a long list of documents. Only if the researcher is aware of the existence of a particular press release and the day of its release, the press release is easily accessible.</p> <p>The press release and the related documents are not easy to understand for journalists (and others) who are not familiar with the EU and the stability and convergence programmes.</p>

Analysis of press releases related to EDP

Hungary 2005

Press release 20/10/05 (IP/05/1311)

The press release under consideration discusses the reassessment of the Commission of the budgetary situation of Hungary. The deficit targets for 2005 and 2006 will be missed by a large margin. The Commission recommends the Council to decide that Hungary fails to correct its deficit.

Related documents are

- 20/10/05: Commission Recommendation for a Council decision, SEC (2005)1305 final

The table below provides the analysis along the three criteria: content, timeliness and accessibility.

Table VI.4 Hungary, 2005

Content	Timeliness	Accessibility
<p>The press release is approximately 41 lines. The data of the press release is found in the related documents.</p> <p>The press release does not mention documents. There is a link to the database with all the programmes and assessments. This link does not work anymore (June 2009).</p> <p>The balance of conciseness and completeness is good.</p>	<p>The timeliness is very good.</p> <p>The press release and excerpt from the Commission recommendation are issued on the same day (20/10/2005). In the press release it is mentioned that “today, the European Commission took the view...”</p>	<p>The press release is hard to find. It is not in the database of DG ECFIN and must be found in another database: the Europa Press release rapid data base.</p> <p>The search criteria are complex and general and they very often generate a long list of documents. Only if the researcher is aware of the existence of a particular press release and the day of its release, the press release is easily accessible.</p> <p>The press release mentions a link to the related document. This link does not work any more (June 2009) The documents are found in the database on the SGP document database of DG ECFIN.</p> <p>The press release is aimed at journalists who are acquainted with the EU and the SGP. For them the press release has clear conclusions. The press release and the related documents are not easy to understand for journalists (and others) who are not familiar with the subject.</p>