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Eurogroup
Eurogroupe



VANISHING ACT:

The Eurogroup's accountability

Benjamin Braun and Marina Hübner

Editor: Leo Hoffmann-Axthelm

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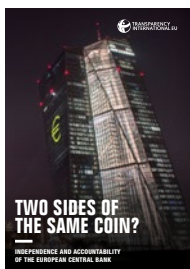
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This is the fourth and final report in Transparency International EU's series on Eurozone governance institutions, following in-depth studies on the independence, transparency, accountability, and integrity of EU economic governance institutions:



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Investing in Integrity? Transparency and democratic accountability of the EIB

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LIST OF ABBREVIATIONS

AMR	Alert Mechanism Report
BEPG	Broad Economic Policy Guidelines
CJEU	Court of Justice of the European Union
CONT	Budgetary Control Committee
CSRs	Country-Specific Recommendations
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Economic and Monetary Affairs Committee
EEC	European Economic Community
EFC	Economic and Financial Committee
EFSF	European Financial Stability Facility
EMS	European Monetary System
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
ESM	European Stability Mechanism
EU	European Union
EWG	Eurogroup Working Group
GDP	Gross Domestic Product
IMF	International Monetary Fund
MIP	Macroeconomic Imbalance Procedure
MoU	Memorandum of Understanding
NIS	National Integrity System
OECD	Organisation for Economic Co-operation and Development
OGWG	Output Gaps Working Group
PEG	President of the Eurogroup
QMV	Qualified Majority Voting
SEA	Single European Act
SGP	Stability and Growth Pact
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
SWD	Staff Working Document
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

EXECUTIVE SUMMARY

For an institution whose decisions have had an impact on the lives of millions of Europeans, there is much about the Eurogroup that is mysterious. It rose from obscurity following the eruption of the euro crisis ten years ago to become the central actor in the drama surrounding a series of bail-outs – setting the conditions attached to European financial assistance to Cyprus, Greece, Ireland, Portugal and Spain. It’s a drama that continues to this day in hard-fought negotiations over Italy’s national budget. And yet what exactly the Eurogroup is, what decisions it takes (if any), and how it operates are questions that are still all too unclear. It is this lack of clarity that has profound consequences for its accountability and, therefore, its legitimacy. Indeed, one of our main findings is that the Eurogroup has evaded, and continues to evade, the accountability that its European-wide impact deserves.

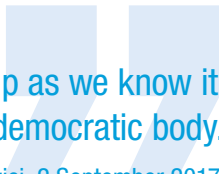
In some ways the Eurogroup is a very solid, enduring part of the EU institutional landscape. Since 1998, the euro area’s finance ministers meet as the Eurogroup the day before each meeting of all EU finance ministers (the Ecofin Council) in Brussels. The Eurogroup holds press conferences, issues press statements and publishes its agendas just like other EU bodies.

In other respects, the Eurogroup can appear strangely insubstantial, even ghostly. It is not governed by the EU treaties, its members sometimes claim not to make any decisions, it has no staff, and no headquarters. It may be unique among European institutions in having no Twitter account. Its permanent President manages the

group part-time, on top of his or her job as national minister of finance, and the group focuses on topics which largely remain of national competence: economic and fiscal policy. Yet Klaus Regling, Managing Director of the European Stability Mechanism (ESM) and one of the architects of the euro, is in no doubt: “The Eurogroup already works as a government of sorts.”¹

Under EU law, the Eurogroup is just a consensus-building organ without the authority to take decisions. The EU’s treaties only mention the Eurogroup in an annex. But decisions pre-agreed by the Eurogroup are adopted by the Council without further debate, and even if a vote is needed, only euro-area ministers vote² – that is, Eurogroup members. It also adopts formal decisions by changing the nameplate and reconvening as the Board of Governors of the ESM – a legal entity that escapes EU regulations on transparency and EU accountability mechanisms such as the EU’s courts, Parliament, or Ombudsman. But it is still the same 19 finance ministers of the euro area around the same table.

The emergence of the Eurogroup as the executive headquarters of euro area governance was by no means inevitable. It was created 20 years ago as an informal forum for discussion and policy coordination on “issues connected with their shared specific responsibilities for the single currency”³ – essentially a talking shop. Those member states who did not adopt the euro as their currency were keen to avoid the creation of an all-powerful *gouvernement économique* that would exclude them.



Let's face it, the Eurogroup as we know it is a rather pale imitation of a democratic body.

Pierre Moscovici, 2 September 2017

The euro crisis utterly changed all that. Since then, EU governments have put in place reforms to strengthen the coordination of fiscal and economic policy among Member States. These efforts, however, have not gone hand in hand with a proportionate increase of democratic accountability, with the effect of widening the EU's overall "democratic deficit". For example, changes to the European Commission's annual monitoring and coordinating of national economic policies – the "European Semester" – mean that the Eurogroup will continue to make important decisions on national economic policies, including potential fines of up to 0.5% of GDP under the excessive deficit procedure. The new procedures aim to square the circle – coordinating policies without integrating decision-making. Our case study on the negotiation of Italy's 2019 budget deficit shows that this continues to be ineffective.

Our conclusion then is that the Eurogroup continues to evade proper accountability. As a basic principle, "democratic control and accountability should occur at the level at which the decisions are taken" – i.e. European decision-making should be accountable at European level. This was the stated goal, in 2012, of the Presidents of the European Council, the European Commission, the Eurogroup, and the European Central Bank.⁴ While the Eurogroup's President regularly appears before the European Parliament to answer questions, this voluntary arrangement does not constitute an effective accountability mechanism. Thus, even while operating as a de-facto *gouvernement économique*, the Eurogroup as such is not accountable to anyone.

The individual finance ministers are, of course, accountable to national parliaments and voters in national elections. This decentralised accountability mechanism can work, but only under conditions that were not met in recent years and are unlikely to be met in the future: if Eurogroup decisions are taken by unanimity, if bargaining power is distributed relatively equally among Member States, and if national parliaments take an equally strong interest in decisions regarding other euro area countries, not only their own.

Decisions by unanimity should, in theory, shield small members from adopting decisions they oppose. In practice, under pressure from financial markets and time constraints, they have a hard time blocking proceedings. Knowledge is power, and only Germany and France muster the resources to assess all national policies as well as read through all of the Commission's opinions and recommendations for all countries. This means most members take decisions on (the rejection of) each other's national budgets without having the resources to adequately analyse them. The superior weight of large members is also formalised in the ESM, where decisions about disbursements can be taken by majority vote rather than consensus, with vote shares reflecting capital contributions.

Based on our understanding of best practice in other EU institutions, we set out a number of incremental reforms to improve the Eurogroup's severe lack of accountability. We acknowledge that these reforms do not get to the heart of the issue, and so, drawing on the work of others, the report presents some scenarios as to how the institutional setup could evolve in the coming years.

RECOMMENDATIONS

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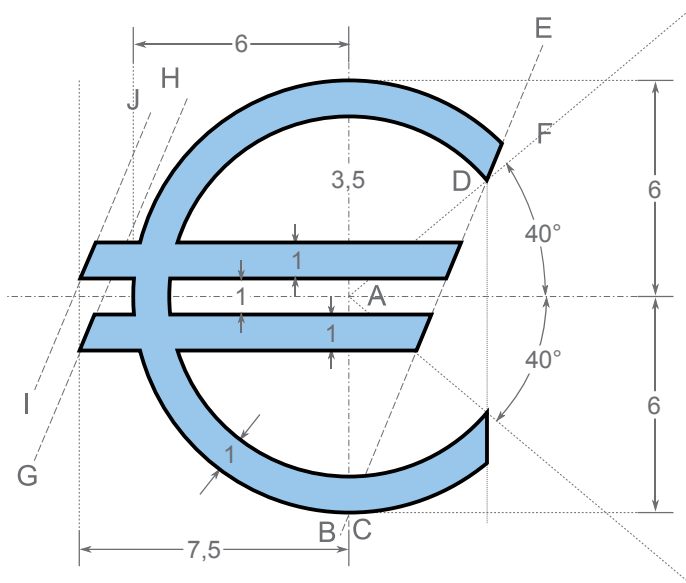
- ▶ Apply the “EU transparency acquis” to the work of the Eurogroup even when meeting as the ESM Board of Governors
- ▶ Ensure the Eurogroup’s transparency regime – especially the publication of detailed agendas – applies also to preparatory bodies
- ▶ Establish a document register listing all Eurogroup documents

ACCOUNTABILITY

- ▶ Formalise the Eurogroup with direct EU-level accountability
- ▶ Strengthen the European Parliament’s role in the European Semester with co-decision powers on draft budgetary plans and country-specific recommendations
- ▶ Mandatory public hearings of the Eurogroup President before the European Parliament

INTEGRITY

- ▶ A full-time Presidency regime should be established for the Eurogroup, eliminating conflicts of interest and more clearly assigning responsibility
- ▶ Introduce a supplementary code of conduct for the Eurogroup as common integrity safeguard



A note on methodology

Our approach rests on three pillars:

1. Reliance on latest **political science literature** on (a) history and political economy of European economic integration and (b) the conditions for accountability and legitimacy of intergovernmental decision-making;
2. **Desk research** in order to take stock of all available official documentation of the work of the Eurogroup and its various preparatory bodies and affiliated institutions;
3. **Interviews** with key policymakers, including: members of the teams of current (Mário Centeno) and former (Jeroen Dijsselbloem) Presidents of the Eurogroup, the former President of the Eurogroup Working Group, the head of the EFC/ EWG/EPC Secretariat, the head of the Council Secretariat, the Managing Director of the ESM, and the IMF representative in Brussels.

Based on this three-pronged approach, we adapt the National Integrity System (NIS) **methodology** developed by Transparency International to the specific case of the Eurogroup. This is necessary for two main reasons. First, unlike organisations such as the European Commission or the European Central Bank, the Eurogroup is not a supranational but an *intergovernmental* body that brings together national ministers of finance. Consequently, the concept of “independence” – a key element of the NIS framework of analysis – does not apply to the Eurogroup, the whole point of which is that it is *not* independent from national governments. Second, the Eurogroup is not, strictly speaking, an organisation. Unlike its close cousin, the intergovernmental Ecofin Council, the Eurogroup is not part of the formal structure of the European Union and has (almost) no basis in EU law, and draws its staff from other institutions, i.e. the Council of the EU, the European Commission, and the European Stability Mechanism. It is an *informal institution* whose working methods and powers are not circumscribed by law. Therefore, the distinction between “law” and “practice”, central to the NIS methodology, does not apply to the Eurogroup. By definition, the Eurogroup is (almost) all “practice”.

EUROPEAN ECONOMIC GOVERNANCE FROM ROME TO THE EURO CRISIS

The Eurogroup has been the most important informal governance body at the European level since the European Council was institutionalised by the Lisbon Treaty. Originally established as a venue for exchange of best-practices in economic policy and fiscal coordination among the finance ministers of the Eurozone, the Eurogroup subsequently became the beating heart of European economic governance.

The emergence of the Eurogroup as the most powerful actor in euro area governance besides the European Central Bank was not preordained. During the late 1990s, France and Germany had very different visions of economic policy coordination in the future European Economic and Monetary Union (EMU). Based on their more *dirigiste* tradition, French policymakers championed a *gouvernement économique*⁵ that could act as a powerful fiscal counterpart to the supranational ECB. Germany, on the other hand, feared that too much coordination of economic and fiscal policies would undercut the independence of the new European monetary authority.⁶

The two countries sought to reconcile their positions, and the Eurogroup was the result – an informal meeting of ministers without legal recognition in the Treaties, low visibility, and low transparency. Its informal character also reflected the interests of the then euro area outsiders Denmark, Sweden and UK which worried that a tailor-made euro area institution with strong legal backing could marginalize the Economic and Financial Affairs (Ecofin) Council. This concern has recently come to the fore again in the context of Brexit.

Following a brief historical account on earlier forms of European economic policy coordination, this section focusses on the early years of the Eurogroup.

EUROPEAN ECONOMIC GOVERNANCE FROM ROME TO MAASTRICHT

The principle of economic coordination is firmly established in the founding legal document of the European Economic Community (EEC). In the Treaty of Rome of 1957, the six founding members of the European Economic Community (EEC) endorsed the idea that Member States “shall regard their conjunctural policies as a matter of common concern” (Article 103(1)). Under the Bretton Woods system of fixed exchange rates, balance-of-payments stability within the European Community was conceived as a precondition for “confidence in [a Member States’] currency” and a “high level of employment and a stable level of prices” (Article 104). For this purpose, the founding members of the EEC agreed to “co-ordinate their economic policies. They shall for this purpose provide for co-operation between their appropriate administrative departments and between their central banks” (Article 105(1)). The Single European Act of 1986 reaffirmed the general goal of greater economic convergence between the members of the European Community, stressing that “convergence of economic and monetary policies [...] is necessary for the further development of the Community” (Article 102a SEA). The European treaties thus contain a broad and early consensus

on the benefits of a joint coordinative approach to economic, fiscal and monetary policies.

In order to realise this commitment to cooperation, the EEC Member States established two expert committees already in the late 1950s and early 1960s: the *Economic Policy Committee*⁷ (EPC) and the *Monetary Committee*.⁸ Today, these committees play a central role in the economic governance of the euro area. While the EPC operates under its original name until today, the *Monetary Committee* was, based on the provisions of the Maastricht Treaty, renamed into *Economic and Financial Committee* (EFC) with the start of stage three of the EMU in 1999.⁹ Both committees also exist in a dedicated euro area format, which in the case of the EFC is known as the *Eurogroup Working Group* (EWG).

The *Monetary Committee* and its successor, the EFC, are considered the most influential expert committees.¹⁰ One reason for their special status is their composition. The EFC – and thus the EWG – brings together senior officials from national finance ministries with direct access to their ministers with top officials from the Commission and, since 1998, the ECB. By contrast, most other preparatory committees of Council formations are staffed with lower-level delegates from line ministries, who are often seconded to their permanent representations to the EU and who lack direct access to the top political levels of national ministries. The high-level preparation in regular EFC/EPC and EWG meetings, in combination with the confidential nature of the meetings contribute to the perception that the Ecofin Council and the Eurogroup work more effectively than other Council formations and their preparatory bodies.

This institutional two-tier structure used to facilitate the recurrent negotiations on exchange rate realignments under the EMU's predecessor, the European Monetary System (EMS).¹¹ It was also pivotal in the preparations for monetary union. However, although the legal commitment in the European Treaty and the institutional infrastructure existed, regular economic and fiscal policy coordination was not a feature of the pre-EMU era.¹²

EUROPEAN ECONOMIC GOVERNANCE IN THE MAASTRICHT-EMU

Preparations for EMU created a sense of urgency with regard to European economic and fiscal policy coordination. EMU meant the loss, at the national level, of two key instruments of macroeconomic adjustment: monetary policy and exchange rate adjustments. Already at the time, the European Commission and others were very clear: the absence of these mechanisms to adjust for competitiveness divergences between national economies would require greater convergence – via policy coordination – in competitiveness, productivity, growth and employment.¹³

The need for closer coordination also arose from the impact of national policies on the aggregate price level in the currency union, and thus on the external trade balance and the exchange rate of the euro.¹⁴

In light of this mutual interdependence between Member States, and thus the 'club character' of EMU, the need for policy coordination was widely acknowledged.¹⁵ By contrast, the institutional framework for convergence was contested: would active economic and fiscal policy coordination be required, or would surveillance and enforcement of convergence via the forces of market discipline be sufficient? This remains a question that very much revolves around national sovereignty. Member States are sceptical of the integration of policy areas close to the heart of national sovereignty, such as the state's ability to tax and spend.

However, philosophical differences in national economic doctrines and traditions were an important factor, too. To understand the Eurogroup – both at the moment of its founding and 20 years on in the context of reform debates – it is important to take into account that "national policy-makers do not simply operate different varieties of capitalism [but] also think about capitalism in different terms."¹⁶ Indeed, the two 'motors of

integration', France and Germany, were engaged in a "battle of ideas" concerning the institutional architecture of economic policy coordination in EMU.¹⁷ This clash between the French vision of a *gouvernement économique* and the German preference for a non-discretionary and rules-based economic governance architecture was resolved by compromise. The two pillars of that compromise are Article 121 and Article 126 TFEU.¹⁸

Article 121 TFEU resonates with the French vision of a *gouvernement économique* for the euro zone, stating that "Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council" (paragraph 121(1)). The non-binding Broad Economic Policy Guidelines (BEPG) (paragraph 121(2)) are a soft law instrument aimed at ensuring policy compliance through mutual learning, benchmarking of progress, and peer pressure via a policy of 'name and shame' (paragraph 121(3)).¹⁹

Article 126 TFEU reflects the German vision of a non-discretionary and rules-based economic governance architecture centred on the idea of sound public finances. Paragraph 126(1) states that "Member States shall avoid excessive government deficits." The Treaty parties also agreed that secondary legislation could "lay down detailed rules and definitions for the application of the provisions" (paragraph 126(14)). Article 126 TFEU thus formed the legal basis for the Stability and Growth Pact (SGP), under which the Member States committed to keeping their annual budget deficits below 3 per cent of GDP, and level of government debt below 60 per cent of GDP. First introduced in 1997, the SGP has since been revised in 2005 and again in 2011 as part of the so-called 'six-pack' legislation (see Box 3 for a detailed overview).

Although Articles 121 and 126 reflect a Franco-German compromise on economic and fiscal policy coordination in EMU, they introduced a lasting asymmetry into European economic governance. Article 121, which highlights the value of coordination, is aspirational and little more than a "general-purpose provision with no corresponding policy rule or 'teeth'".²⁰ Though a direct enforcement mechanism is lacking, Article 126, in contrast, details concrete numerical targets and an explicit sanctioning mechanism in cases of non-compliance.

THE BIRTH OF THE EUROGROUP

In addition to the *substance* of euro area economic governance, its institutional *form* was also contested between France and Germany. With only a few months to go until the introduction of the euro, German insistence on a 'Stability Pact' was met with great apprehension in France. The newly elected socialist government under Lionel Jospin insisted that the term 'growth' be added to the title of the Pact. More importantly, it also pressed for a separate economic governance body for the euro area. In the words of then-French finance minister Dominique Strauss-Kahn, the purpose of such an institution would be both to "match increased monetary interdependence with closer economic and budgetary co-operation" and to avoid that European citizens regard the ECB as "the only institution responsible for macro-economic policy [and] for growth, employment, or even unemployment, whereas its mandate is to focus on the narrower objective of price stability".²¹

The German government rejected this reasoning, regarding a strong intergovernmental counterpart to the supranational ECB as a threat to central bank independence. The euro area outsiders Denmark, Sweden and the UK raised concerns as well, albeit for a different reason. They feared that a powerful euro area governance body would sideline the Ecofin Council, composed of all EU finance ministers, and vetoed the French proposal.

An agreement was found by the Luxembourg European Council of December 1997. After intense negotiations mainly between Britain and France, British prime minister Tony Blair accepted a compromise proposal: the euro area finance ministers would henceforth meet informally, outside of Community law. The Council resolution established that "the Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency." To alleviate the fears of the 'outs', the EU-15 agreed that "whenever matters of common interest are concerned they will be discussed by Ministers of all Member States", while reserving formal decision-making authority for the Ecofin Council.²²

This compromise cleared the way for the formation of a euro club institution, which was initially called Euro-XI. Only in 2001, when Greece joined the euro, did the club acquire its current name: Eurogroup.²³

The Eurogroup first met in June 1998 at Château de Senningen in Luxembourg. It quickly became routine to meet once a month on the eve of the regular Ecofin Council. In effect, the Eurogroup became the informal and confidential format of the Ecofin Council. Its informality, which is highly valued by finance ministers, reflects the deliberate decision to limit attendance by a strict 'minister-plus-one' rule.²⁴ The secretaries of state (or similar, depending on denomination) that usually accompany ministers in Eurogroup meetings also attend the meetings of the EFC and the EWG, ensuring close links between the political and the more "technical" levels. Besides the ministers and their advisors, only a few other institutions are present in the room, notably the ECB President, the European Commissioner Economic and Financial Affairs (responsible for DG ECFIN) as well as the Vice President for the Euro or their deputies (see section "Organisation and decision-making" below). By contrast, more than 100 people participate in meetings of the Ecofin Council. In short, its lack of a legal statute, its small size, and

the absence of detailed minutes give the Eurogroup a uniquely informal and confidential character.

“CREEPING INSTITUTIONALISATION” OF THE EUROGROUP

Despite finding Treaty-recognition only in the Lisbon Treaty of 2009, the Eurogroup saw a “creeping institutionalisation”²⁵ already during the first ten years of its existence. In September 2004, the euro area finance ministers decided to elect a permanent president from among their ranks. The Eurogroup president serves a renewable term of two and a half years (before 2009: two years). Jean-Claude Juncker served as first president from 2005 to 2012. The Eurogroup thus became an early adopter of the idea of a permanent (but not full-time) presidency, which subsequently spread to other EU bodies.²⁶

The managerial and representative tasks of the Eurogroup president have continuously grown in scope. They comprise the preparation and



Jean-Claude Juncker was the Eurogroup's first permanent, part-time President from 2005 to 2013

chairing of Eurogroup meetings, the presentation of the outcomes of meetings to the public and to the ministers of non-euro area EU countries during Ecofin meetings, and the representation of the Eurogroup in international fora and in the regular economic dialogues with the European Parliament.²⁷

Also in 2004, the Eurogroup adopted an internal document specifying its working methods. The revised version of October 2008, made public only in 2017, is currently still in force. The eight-page document covers various issues, including provisions on the substance of discussion, internal procedural issues, and external relations with other European and international institutions. The working methods put a strong emphasis on the value of informality and confidentiality as a pre-condition for open and “in-depth political discussions” and mutual learning among Eurogroup members.²⁸

During the early years of its existence, many observers viewed the Eurogroup as little more than a place for mutual economic exchange – a ‘talking shop’. Only occasionally did the Eurogroup attract greater public attention, notably in November 2003 when the deficit countries France and Germany successfully forged a coalition among finance ministers to suspend the Stability and Growth Pact.²⁹ This changed radically during the euro crisis, when the Eurogroup acted as the central – besides the ECB – decision maker and crisis manager. Moreover, in the post-crisis euro area governance architecture, the de-facto decision-making powers of the Eurogroup are substantially increased.

SUMMARY: EUROPEAN ECONOMIC GOVERNANCE BETWEEN AMBITION AND REALITY

The idea of European economic and fiscal coordination has a long history, dating back to the Treaty of Rome of 1957. The early establishment of technocratic coordination bodies – the *Economic Policy Committee* and the *Monetary Committee* – accompanied the vision of the founding members of the European Community. Although the *Monetary Committee* played an essential role in the preparations for EMU, regular economic policy coordination remained weak until the introduction of the euro. While the move towards EMU brought the need for coordination back on the political agenda, negative sovereignty effects, the Franco-German economic “battle of ideas” and conflicts between euro area ‘ins’ and ‘outs’ worked against the establishment of actual EMU governance institutions. The informal Eurogroup is the result of these conflicting political interests. While its relevance and power were limited during the first years of its existence, the Eurogroup has emerged as the new powerhouse in European economic governance since the euro crisis – but its governance has not been reformed in line with these new powers.

THE SECOND DECADE, AND THE SCOPE OF EUROGROUP ACTIVITIES TODAY

The Eurogroup's first decade was, at least in retrospect, a quiet period. The same cannot be said for the period from 2008 to 2018, which was dominated by the 2007-2008 banking crisis and the sovereign debt crisis that affected several euro area Member States from 2009 onward. Initial predictions of growing involvement of the heads of state and government in economic policy coordination did not materialize.³⁰ On the contrary, the Eurogroup emerged as the undisputed headquarters of economic governance in the euro area, strengthening the role of finance ministers also domestically. This section summarises the evolution of the Eurogroup since 2008 with the goal of describing the full breadth and scope of Eurogroup activities today.

GENERAL POLITICAL AND ORGANISATIONAL STRENGTHENING: LISBON TREATY AND EURO SUMMIT

Following a first meeting on 12 October 2008, the heads of state and government of the euro area began to meet twice a year in so-called *Euro Summits*. Much like the European Council for the EU as a whole, these Euro Summits set the direction and general terms for substantial and institutional reforms of the euro area. Instead of being crowded out by this development, however,

the Eurogroup has become more central to the economic governance of the euro area. The post-crisis institutionalisation and empowerment of the Eurogroup unfolded through a series of small amendments, legal acts and political decisions.

The first legal document was the *Treaty of Lisbon*, which entered into force on 1 December 2009. While the Treaty itself does not mention the Eurogroup, Protocol No. 14 to the *Treaty on the Functioning of the European Union*, in conjunction with Article 137, recognised the legal status of the Eurogroup as the informal meeting format for euro area finance ministers. The protocol consists of only one paragraph that establishes the election, by the ministers, of a Eurogroup President for two and a half years.³¹ Regarding the Ecofin configuration of the Council, Protocol No. 14 also amended Council rules such that on “matters only affecting the euro area, only Eurogroup members are allowed to vote”.

The second institutional change came with the statement of the October 2011 Euro Summit, which proclaimed continuity for the format of a regular, twice-yearly Euro Summit, as well as central role for the Eurogroup:

The Eurogroup will, together with the Commission and the ECB, remain at the core of the daily management of the euro area. It will play a central role in the implementation by the euro area Member States of the European Semester.³²

In addition to this general political declaration, the statement introduced two innovations. First, it established the Eurogroup as the **preparatory body for Euro Summits**. This arrangement was formalised by Article 12(4) of the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (TSCG), concluded in March 2012.

Second and more importantly, the Euro Summit statement established the position of a “**full-time Brussels-based President**” of the **Eurogroup Working Group**, the main preparatory body of the Eurogroup. This President is elected by the members of the EWG and appointed by the Eurogroup. Thomas Wieser, hitherto section chief at the Austrian finance ministry, became the first person to be elected to this position. In order to reduce tensions between the upgraded EWG and the EFC, the preparatory body of the Ecofin Council, and to increase efficiency and coordination, he was also elected as President of the EFC in January 2012.³³

THE EUROGROUP IN THE EVOLVING FINANCIAL STABILITY ARCHITECTURE: TROIKA/ESM, SSM/SRM

These changes – the formalisation of the Eurogroup Presidency, the incorporation of the Eurogroup into the Euro Summit framework, the emphasis of the Eurogroup’s role in the European Semester, and the institutionalisation of the EWG Presidency – strengthened the (hitherto weak) administrative resources, the institutional status, and the political power of the Eurogroup. This general strengthening coincided with a steady increase of Eurogroup tasks and responsibilities vis-à-vis new institutions and institutional configurations, notably the ‘Troika’, the European Stability Mechanism, and the Single Supervisory Mechanism.

While leaving virtually no paper trail, the ad hoc introduction of macroeconomic adjustment programmes gave the Eurogroup enormous power

over individual Member States: At the March 2010 Euro Summit, the heads of state and government decided to provide a financial aid package to Greece involving both IMF financing and bilateral loans.³⁴ The loans would be “subject to strong conditionality and based on an assessment by the European Commission and the European Central Bank” – the ‘**Troika**’ was born.³⁵ While the Eurogroup itself was not part of the Troika, the Euro Summit statement specified that any disbursements of funds “would be decided by the euro area Member States by unanimity”. This decision would henceforth be taken by the Eurogroup, first on bilateral loans, then on loans of the temporary European Financial Stability Facility and later on the permanent European Stability Mechanism. Under this arrangement, improvised in response to legal and political obstacles to intra-euro area sovereign lending,³⁶ the Troika became the de-facto agent of the Eurogroup, which acted as the principal (jointly with the International Monetary Fund).

This arrangement was not substantially altered by the creation of the **European Stability Mechanism (ESM)** in October 2012. The ESM became the main source of sovereign loans to programme countries. The power to decide over the most important political and economic issue in the euro area – the disbursement of such loans to programme countries – fell to the Board of Governors of the ESM. That Board of Governors consists of the finance ministers of the euro area – in other words, the Eurogroup. While the membership is identical, in their capacity as ESM Governors the finance ministers, of course, act under a different accountability and transparency regime outside of the EU legal framework.³⁷ It is the Board of Governors that issues the mandate for the Commission, in liaison with the ECB, to negotiate, monitor and eventually propose adjustments to programme design and conditionality with prospective programme countries (Article 7 Regulation (EU) 472/2013). Since it is the Board of Governors that makes the disbursement decision, the Commission clearly acts as the Eurogroup’s agent.³⁸ A source of particular concern has been the role of the central bank in the Troika. While the ECB describes its function as that of a “technical advisor”, an EU parliamentary report on the role

and operations of the Troika notes that its role is “not sufficiently defined” and subject to potential “conflicts of interests”.³⁹ This corresponds with the Court of Auditors account of the ECB’s role in the Troika as “very broad”, an assessment that stands in contrast with its narrow Treaty mandate.⁴⁰ This clear division of responsibility was further emphasised by the Court of Justice of the EU (CJEU) in the Pringle case, stating that the duties of the Commission and the ECB, “important as they are, do not entail any power to make decisions of their own”.⁴¹

Though the legal mandate is different, meetings of the Eurogroup and meetings of the ESM Board of Governors usually take place on the same day and in the same room. The European Commission and the ECB participate as non-voting observers, the IMF and non-euro Member States participate on ad-hoc basis at the invitation of the Board.⁴²

In line with the consensus principle of the Eurogroup and with Article 5(6) ESM-Treaty, decisions on financial assistance must be taken by “mutual agreement” (unanimity) by the ESM Board (i.e. the Eurogroup finance ministers). Only if the Commission and the ECB rule that non-action would threaten the integrity of the euro area can the ESM Board of Governors decide by an 85 per cent majority.⁴³ Since Member States’ votes are weighted by their share in the ESM’s capital, this rule gives the three largest Member States a veto right (Germany, France, Italy). At the same time, an 85 per cent majority requires the votes of only the six largest Member States, the remaining eleven Member States together holding less than 15 per cent of the ESM’s shares.⁴⁴ While justified in terms of differences in overall exposure to losses, the weighted voting scheme implicates huge power asymmetries in favour of the largest ESM members.

While the ESM falls into the area of macroeconomic governance, the Eurogroup also plays a role in the context of the new **Banking Union**. The first pillar of the Banking Union, the **Single Supervisory Mechanism (SSM)**, is formally attached to the European Central Bank and shares many of its governance arrangements. In contrast to the ECB’s accountability regime, which provides no role for

the Eurogroup, the SSM is obliged to report to the Eurogroup. Specifically, the Chair of the Supervisory Board must present the SSM’s annual report both to the European Parliament and to the Eurogroup (in Banking Union composition).⁴⁵ In addition, the Eurogroup has the right to hold additional hearings with the Chair of the Supervisory Board.⁴⁶

The Eurogroup plays a more prominent role in the second pillar of the Banking Union, the **Single Resolution Mechanism (SRM)**. First, to the extent the Council takes part in the chain of decision-making, the relevant body is the Ecofin Council in Banking Union composition. While Banking Union participation is wider than euro area membership, the Eurogroup clearly dominates that setting. Second, the Chair of the Single Resolution Board must present the SRM’s annual report to the European Parliament and to the Council.⁴⁷ Again, additional hearings are possible.⁴⁸

THE EUROGROUP IN THE EUROPEAN SEMESTER

Finally, the European Semester – see Box 1 for an overview – introduced a number of procedures and coordination requirements that decisively strengthen the role and visibility of the Eurogroup. Introduced for the first time in 2011, the European Semester is an annual cycle of economic policy coordination within the EU that begins with the submission of draft budgetary plans by Member States by 15 October of each year. It covers the areas of structural reforms (in line with the Europe 2020 strategy), fiscal policy (in line with the Stability and Growth Pact), and the prevention of excessive macroeconomic imbalances (in line with the new Macroeconomic Imbalances Procedure (MIP) introduced with the ‘six-pack’ reforms). The end result of the European Semester are country-specific recommendations (CSRs), elaborated and presented by the Commission, amended and/or endorsed by the Council, and formally adopted by the European Council in the summer.

BOX 1: The European Semester

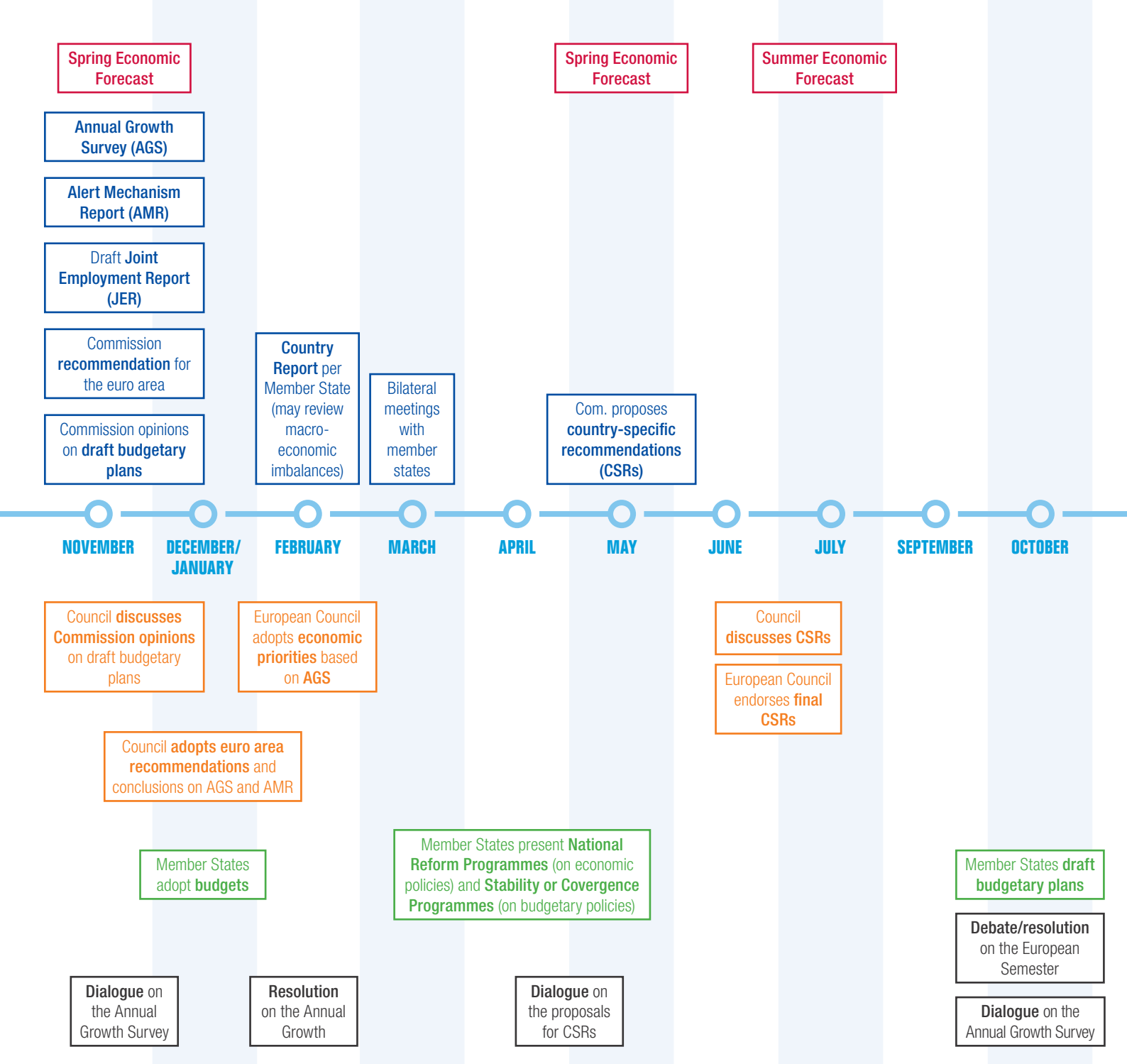
The European Semester starts in November with the publication of a series of Commission reports on the state of national economies, the so-called 'autumn package'. The Annual Growth Survey (AGS), the Alert Mechanism Report (AMR), the Joint Employment Report (JER) and the draft recommendation for the euro area mark the start of a lengthy debate that eventually results in the adoption of country-specific recommendations (CSRs) in the early summer of the next year. The purpose of the CSRs is to provide clear guidance for national governments and parliaments in their preparations of draft budgetary plans (DBPs), which, as the final step in the Semester cycle, have to be submitted to the Commission for approval in October.

**EUROPEAN
COMMISSION**

**EUROPEAN COUNCIL /
COUNCIL /
EUROGROUP**

MEMBER STATES

**EUROPEAN
PARLIAMENT**



Legend:

Shaded boxes: Applies only to euro area Member States.

- **Annual Growth Survey:** identifies the economic and social priorities for the European Union and its Member States for the year ahead.
- **Alert Mechanism Report:** identifies countries that may be affected by economic imbalances and for which the Commission should undertake further analysis.
- **Draft Joint Employment Report:** analyses the employment and social situation in Europe and the policy responses of national governments.
- The **recommendation** addresses issues critical to the functioning of the single currency area and suggests concrete measures national governments can implement.

- **Country reports:** analyse the overall economic and social developments in each EU country; assess the progress made by each EU country in addressing the issues identified in the previous year's recommendations.
- **Country-specific recommendations:** provide policy guidance tailored to each EU country on how to boost jobs and growth, while maintaining sound public finances
- **National Reform Programme** (all countries) and **Stability Programme** (3-year budget plan, for euro area countries) or **Convergence Programme** (3-year budget plan, for non-euro area countries): The programmes detail the specific policies each country will implement to boost jobs and growth and prevent/correct imbalances, and their concrete plans to comply with the EU's country-specific recommendations and fiscal rules.

The European Semester is complex, in substance and in process, involving the European Commission, the Council of the EU and the European Council, the Member States, national parliaments and the European Parliament, as well as additional advisory bodies such as the Tripartite Summit and the European Fiscal Board and its national pendants. Though the Eurogroup participates over the whole cycle, its main involvement is at the beginning of the annual process, when it discusses the Commission's opinions on Member States' draft budgetary plans, and the Commission's recommendation on the economic policy of the euro area.

In practice, these discussions happen primarily at the level of the Eurogroup Working Group, the Economic and Financial Committee and its subgroups. Even there, the input for discussions comes predominantly from the European Commission and is channelled through the EFC/EPC/EWG Secretariat, which is located in the Charlemagne building – home of the Directorate-General for Economic and Financial Affairs – but formally independent of the Commission services. In contrast, representatives of national finance ministries do not generally scrutinise other Member States' draft budgetary plans. Only the German and the French finance ministries muster the resources to assess all national policies as well as the Commission's opinions and recommendations – the Commission issues staff working documents (SWD) and formal draft opinions on each national budget plus the resulting aggregate, the euro area-wide fiscal stance. In the Eurogroup proper, among ministers, interest in European Semester issues has declined over time. This finding corresponds with the latest academic research on the European Semester⁴⁹ and is consistent with the finding that implementation rates of country-specific recommendations, always low, have further declined over time.⁵⁰

SUMMARY: SUBSTANTIAL INCREASE OF DE-FACTO DECISION-MAKING POWER

The formal Treaty-based recognition of the Eurogroup and its President in Protocol No. 14 of the Lisbon Treaty and the establishment of a permanent EWG President reinforced the political status and strengthened the organisational capacities of the Eurogroup and its preparatory bodies. At the same time, the activities and responsibilities of the Eurogroup have greatly increased since the beginning of the global financial crisis in 2008. In the context of financial assistance/macro-economic adjustment programmes in particular, the Eurogroup gained substantial new powers. In its incarnation as the Board of Governors of the ESM, the Eurogroup is no longer merely an informal body but takes, under a different legal framework, formal decisions with far-reaching consequences for entire countries. As for the Banking Union, both the Chair of the Supervisory Board and the Chair of the Single Resolution Board report annually to the Eurogroup. In addition, the EWG plays an important role in the discussion of the national draft budgetary plans and the euro area recommendations as part of the European Semester. In sum, the gap between the initial purpose of the Eurogroup as a forum for communication and coordination and its de-facto scrutiny and decision-making power has grown dramatically over the past ten years.

BOX 2: Two Pack

TWO PACK (euro area only)

Regulation (EU) 472/2013

on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability

SPECIFICATION OF PROCEDURES OF ENHANCED ECONOMIC SURVEILLANCE OF EURO AREA COUNTRIES IN BUDGETARY DIFFICULTIES

The aim of the Regulation is to ensure close surveillance of euro area member states with serious budgetary difficulties. It differentiates between three types of closer surveillance:

- a. **Enhanced/Reinforced Surveillance:** this is put in place for a eurozone country in budgetary difficulties when there is a risk of negative spill-over effects on other eurozone countries (due to the interdependence of their markets, particularly for capital).
- b. **Macroeconomic Adjustment Programme:** this applies to countries that receive financial assistance (e.g. ESM loans). The financial assistance usually comes with conditions attached to its disbursement to the euro area country in question.
- c. **Post-Programme Surveillance:** after all the tranches of financial assistance have been disbursed, the euro area country concerned remains under post-programme surveillance (until at least 75 % of the financial assistance has been repaid). Here, the Commission, in liaison with the ECB, goes on regular missions to the eurozone country, which reports back on what it is doing to improve its public finances.

Regulation (EU) 473/2013

on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area

SPECIFICATION OF RULES FOR FISCAL SURVEILLANCE AND EXCESSIVE DEFICIT CORRECTION IN THE EURO AREA

The aim of the Regulation is to improve the surveillance of budgetary policies in euro area countries through stronger European budgetary coordination and national ownership of fiscal rules. This includes:

- a. The introduction of a European assessment of **Draft Budgetary Plans** on a coordinated time frame in autumn for euro area countries (submission of DBPs by October 15).
- b. The improvement of national budgetary frameworks by requiring the creation of **Independent Fiscal Bodies** which are in charge of monitoring compliance with the relevant fiscal rules and produce or endorse the macroeconomic forecasts underpinning the annual national budget and the medium-term fiscal plans.

BOX 3: Six Pack

STANDARDS FOR NATIONAL BUDGETARY FRAMEWORKS

Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

MACROECONOMIC SURVEILLANCE

Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances

Regulation (EU) 1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area [euro area only]

BUDGETARY SURVEILLANCE

Regulation (EU) 1175/2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

Regulation (EU) 1177/2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure

Regulation (EU) 1173/2011 on the effective enforcement of budgetary surveillance in the euro area [euro area only]

SPECIFICATION OF DETAILED RULES FOR NATIONAL BUDGETS

The aim of the Directive is to set out specific rules for the budgetary frameworks of member states. These cover the following areas:

- Public accounting systems have to cover all areas of income and expenditure. These must be subject to internal control and independent audits.
- Fiscal data have to be made publicly available. Those for central and state government and the social security sector must be supplied monthly and those for local government quarterly.
- Fiscal planning has to be based on realistic macroeconomic and budgetary forecasts, using the most up-to-date data. These include latest European Commission forecasts and, where relevant, those from independent organisations.
- Fiscal rules should help to ensure the overall government budget complies with European rules. The aim is to avoid excessive public deficit or debt. Independent organisations should monitor compliance with the rules.
- An effective and credible medium-term budgetary framework that includes a three year fiscal planning horizon should help to increase the reliability of national fiscal policy. This contains multiannual budgetary objectives, projections of major expenditure and revenue items and assessment of the long-term sustainability of public finances.
- Accounting rules and procedures have to be consistent across all areas of government activity.

SPECIFICATION OF PROCEDURES TO DETECT AND CORRECT MACROECONOMIC IMBALANCES IN EU MEMBER STATES

The aim of the Regulation is to ensure a timely detection and correction of national macroeconomic imbalances. For this purpose, the European Commission:

- Publishes an Alert Mechanism Report each year which, based on a scoreboard of economic indicators, assesses the macroeconomic situation of each EU member state.
- Conducts an In-Depth Review for those member states which are deemed to be affected or at risk to be affected by an macroeconomic imbalance. The Commission and the Council take the results of this review into account in the development of the Country-Specific Recommendations.
- Recommends to open an Excessive Imbalance Procedure for EU member states considered to be in a state of excessive macroeconomic imbalances.

SPECIFICATION OF A SANCTION MECHANISM FOR EURO AREA COUNTRIES IN CASE OF NON-CORRECTION OF MACROECONOMIC IMBALANCES

The aim of the Regulation is to introduce a sanctioning mechanism for euro area countries which fail to take corrective measures in case of macroeconomic imbalances:

- Euro area countries may be subject to financial penalties where they repeatedly submit insufficient corrective action plans or in the case of lack of corrective action. In this case, the Council may impose an interest-bearing deposit on the country. If the country still fails to implement corrective measures, this deposit can be converted into a fine. The interest-bearing deposit or fine amounts to 0.1% of the country's GDP in the previous year.
- These sanctions penalise a repeated failure to act, not the imbalances themselves. They are considered approved unless a qualified majority of Eurogroup members objects.
- Lack of compliance with the Excessive Imbalance Procedure can lead to the suspension of European Structural and Investment Funds, irrespective of their euro area membership.

SPECIFICATION OF THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT

The aim of the Regulation is to monitor and coordinate the budgetary policies of EU countries to ensure budgetary discipline within the EU. The preventive arm of the SGP consists of the following elements:

- EU countries submit to the European Commission Stability Programmes (for countries in the euro area) and Convergence Programmes (for countries outside the euro area) in which they adopt Medium-Term Budgetary Objectives. These programmes are assessed by the Commission and are the subject of specific Country-Specific Recommendations.
- As part of multilateral surveillance, the Council monitors the implementation of Stability and Convergence Programmes on the basis of information provided by the EU countries and assessments carried out by the Commission and the Economic and Financial Committee.
- If the Commission identifies a significant divergence from the Medium-Term Budgetary Objective or from the planned adjustments that should lead to achieving that objective, it forwards recommendations to the country concerned to prevent an excessive deficit - an Early Warning Mechanism.

SPECIFICATION OF THE CORRECTIVE ARM OF THE STABILITY AND GROWTH PACT

The aim of the Regulation is to specify the procedures of the Excessive Deficit Procedure in case of non-compliance with the SGP:

- Deficit Criterion: the general government deficit is considered excessive if it is over the reference value of 3 % of Gross Domestic Product (GDP) at market prices; or
- Debt Criterion: debt is above 60 % of GDP and the target of reducing debt by 1/20th per year was not reached during the previous the years.

SPECIFICATION OF A SANCTION MECHANISM FOR EURO AREA COUNTRIES IN CASE OF NON-COMPLIANCE WITH THE STABILITY AND GROWTH PACT OR MANIPULATION OF ECONOMIC STATISTICS

The aim of the Regulation is to introduce a sanctioning mechanism for euro area countries which fail to take corrective measures in case of breaching the SGP:

- Euro area countries which fail to act to correct a significant deviation of their structural budget deficit from what is required to achieve their medium-term objective, following a warning from the European Commission, may have to lodge with the Commission an interest-bearing deposit equivalent to 0.2% of their previous year's gross domestic product.
- Euro area countries which are deemed to be in excessive deficit by the Council, may have to lodge with the Commission a non-interest-bearing deposit equivalent to 0.2% of their previous year's GDP.
- Euro area countries which do not act effectively to correct an excessive deficit, may be fined 0.2% of their previous year's GDP.
- In addition, all EU countries (except the UK) may be subject to a suspension of commitments or payments of EU Structural and Investment Funds.

ORGANISATION AND DECISION-MAKING PROCESS



The Eurogroup is often lauded for its non-bureaucratic character. A strict minister-plus-one rule allows for informal, and therefore more direct, discussions in a collegial atmosphere. Media reports about Eurogroup meetings reinforce the notion that 19 finance ministers and their state secretaries (or similar, depending on denomination) are all there is to the Eurogroup. This image is inaccurate. In practice, the Eurogroup is deeply integrated in a set of European institutions, many of which contribute to the preparation of Eurogroup meetings and are present when ministers meet.

This section describes the institutional setting within which the Eurogroup is embedded, before zooming in on the Eurogroup's decision-making process. For better orientation, Figure 1 visualises this institutional environment.



The full Eurogroup family picture on 3 December 2018. Holding signs celebrating 20 years of the euro from left to right: Commissioner Pierre Moscovici, ECB-President Mario Draghi, President of the Eurogroup Mário Centeno, and Vice-President of the European Commission Valdis Dombrovskis

THE EUROGROUP'S INSTITUTIONAL ENVIRONMENT

The EU consists of a unique combination of intergovernmental and supranational institutions, often referred to as a “mixed” or “hybrid” system. The European Council and the Council of the EU represent the intergovernmental element, the Commission, the European Parliament, the Court of Justice of the European Union (CJEU), and the ECB represent supranational elements. While on paper the Eurogroup is a purely intergovernmental institution, in practice its supranational component has increased over time. For the purposes of this report, the distinction matters primarily with regard to the organisation of accountability – while intergovernmental institutions can be held accountable at the national level, accountability for supranational institutions should be organised at the supranational level.

The Eurogroup and the Eurogroup Working Group

While the European Council, under the leadership of Donald Tusk and a small team, brings together the heads of state and government, the coordinative and legislative activities of national ministers are organised by the Council of the EU (‘the Council’). The Council meets in ten configurations, covering all policy areas. The Eurogroup is the euro area formation of the *Economic and Financial Affairs Council* (Ecofin). As such, the Eurogroup is an *intergovernmental* institution.

The **Eurogroup** not only comprises fewer countries than Ecofin, it also comprises fewer participants per country. Whereas in Ecofin meetings ministers are accompanied by sizeable delegations, Eurogroup meetings are much smaller due to the strict minister-plus-one rule. Ministers are usually accompanied by the secretaries of state (or equivalents) who represent them in the Eurogroup Working Group. Further individuals present include the President of the Eurogroup Working Group (since 2018 Hans Vijlbrief), the Director of the EFC/EPC/EWG Secretariat (Stefan Pflueger), the head of unit for Ecofin matters of the General Secretariat of the Council (GSC, Olaf Prüssmann), as well as representatives from the Council Legal

Service. In addition, the following institutions are represented: the ECB (usually represented by President Mario Draghi or by Executive Board member Benoît Cœuré); the ESM (represented by Managing Director Klaus Regling); and, for items concerning the economic programmes in which it is involved, the IMF (represented by Managing Director Christine Lagarde or by the head of the European Department, Poul M. Thomsen).

Only the most important or controversial files reach the ministerial level. Most files are dealt with in Eurogroup’s preparatory bodies, the **Eurogroup Working Group (EWG)** and its subgroups. The EWG is the euro area formation of the Economic and Financial Committee (EFC), which combines an advisory role vis-à-vis the Commission with its role as the preparatory body for Ecofin. Chaired by a full-time, Brussels-based President (since 2011), the EWG consists of the secretaries of state (or equivalents) of the national finance ministries, an advisor of the Eurogroup president, as well as representatives from the Commission and the ECB. Again, the heads of the EFC Secretariat and of the Ecofin Council Secretariat are also present.

Most of the technical work is done in the subgroups and other ad hoc working parties convened by the EWG, which brings together officials from national finance ministries, often including members from the EU-28 rather than the EMU-19. The Economic Policy Committee (see next section), for instance, chairs four working groups on long-term economic issues such as ‘Ageing Populations and Sustainability’ or ‘Energy and Climate Change’. The EPC’s ‘Output Gaps Working Group’ (OGWG) – the output gap is an important parameter for the calculation of the structural deficit – comprises roughly 70 experts in statistics and econometric



modelling who meet four times a year for an entire day. OGWG decisions require unanimity; unresolved issues are passed on to the political level – first the EWG/EFC, and ultimately the Eurogroup/Ecofin.⁵¹

Brussels-based support structures: EWG President, EWG Secretariat, and Council Secretariat

The work of the Eurogroup and the EWG is supported by three closely connected offices in Brussels – the EWG President, the EWG Secretariat, and the Council Secretariat.

Thomas Wieser, who occupied the **EWG Presidency** from its inception in 2011 until 2018, turned the office into the central position within the support structure of the Eurogroup. Since February 2018, the EWG presidency has been held by Hans Vijlbrief, formerly an official at the Dutch ministry of finance and Dutch EWG-member. His appointment coincided with the end of the Dutch Finance Minister's Eurogroup-Presidency, Jeroen Dijsselbloem.

The office of the EWG President is physically located at the General Secretariat of the Council. While a physical location at the Commission would have reflected the fact that his team, the EWG-Secretariat, is located within the Commission, the decision was taken in 2011 to ensure that the EWG-President is institutionally affiliated with the Council in terms of office, logo, email-server etc. Member States' mistrust of the Commission played a role in the decision to keep the EWG President in their midst in Brussels. In fact, his office is adjacent to the office of the European Council President – a proximity that has been interpreted as indicating the importance of the EWG Presidency.⁵²

The EWG and its President work closely with two secretariats. Its own secretariat, which also serves as the secretariat for the EFC and the EPC, is headed by Stefan Pflueger. This **EFC/EPC/ EWG Secretariat** ('Secretariat') is a key actor in the Eurogroup. In the context of the European Semester in particular, the Secretariat ensures that files travel smoothly between the supranational Commission and the intergovernmental Eurogroup structures (see next section below). A further



indication of the importance of the Secretariat is that it drafts the summing-up statements for the Eurogroup President – a crucial element in the Eurogroup's consensus-based decision-making process and public accountability.

The Secretariat does not report to the Commission but to the committees and committee/ EWG chairs. However, various aspects of the Secretariat's organizational setup suggest that it is not, in practice, entirely independent from the Commission. The Secretariat is physically located at the Commission, and approximately half its staff are drawn from the ranks of the Commission (the other half are seconded from national finance ministries and central banks). The Secretariat's Director also participates in ECFIN Directors' meetings and at least for Commission officials, human resources and staff progression are still operated by ECFIN, potentially limiting the independence of the Secretariat from the Commission.

While economic issues are at the heart of the Secretariat's work, the **Council Secretariat for Ecofin matters** ('Council Secretariat') focuses primarily on legal, institutional, and organizational issues.

While the Eurogroup itself has, by nature, retained its original leanness, the growing complexity of economic governance in the euro area has manifested itself in a multiplication of working groups, meetings, and a doubling of the staff count of the Secretariat to about a dozen over the past decade.

DECISION-MAKING

Decisions on high-stakes political matters are taken by the finance ministers in the Eurogroup. It would be wrong, however, to conclude that all power is concentrated at the ministerial level. There are two main channels through which actors other than ministers exert power within the Eurogroup. First, the Commission, the ESM, and the ECB provide the technical briefings that inform the work of the Eurogroup and its preparatory bodies. Second, the Secretariat and the EWG President have considerable agenda-setting role.

The Commission – primarily via the EFC/EPC/EWG Secretariat – is the main source of technical input for the meetings of the EWG and the Eurogroup, providing about 80 per cent of internal briefing papers on economic policy issues. The ESM provides the bulk of the remaining 20 per cent. The ECB provides input on matters of monetary and financial stability, but rarely in written form.

The ECB's role is of particular interest here, for two reasons. On the one hand, the ECB enjoys unique authority in economic and financial matters. Other participants in meetings, whether at the technical or at the political levels of the Eurogroup, generally take the ECB's views as the last word on financial and monetary affairs. On the other hand, the ECB's independence and narrow price-stability mandate make its participation in the Eurogroup a delicate task. For it should neither seek to influence other actors – let alone elected politicians – nor should it let itself be influenced by them. The fact that the ECB is reluctant to put things in writing and prefers to deliver oral briefings suggests that the ECB is conscious of this dilemma and treads carefully. Needless to say, wilful avoidance of a paper trail is highly problematic from an accountability and transparency perspective.

The best way to illustrate the decision-making process of the Eurogroup is to use a concrete example: **the European Semester recommendations for the euro area**. The Commission, using its right of initiative, provides a first draft. Approximately ten days ahead of a Eurogroup meeting, the Secretariat organises a written consultation of Member States via the EWG Alternates and the EPC in euro area formation, splitting the file between the two depending on topics and responsibilities. The Secretariat will then, in cooperation with the Commission, review member state responses and try to identify agreements and establish common denominators in areas of disagreement. A revised version of the draft recommendations is then submitted for discussion in the EWG Alternates meeting. The resulting new draft goes to the EWG, where the consultation procedure may be repeated before the draft is discussed in the EWG meeting. There, additional drafting generally happens during the meeting, although sometimes the Secretariat finalizes the draft only after the meeting. That draft is then sent, by the Secretariat, to the Eurogroup for discussion and endorsement, with open issues (“brackets”) kept to a minimum. This overview shows the pivotal role of the Secretariat, which serves as a switchboard between the intergovernmental (technical working groups/EWG/Eurogroup) and the supranational (Commission, ECB) elements of the Eurogroup.

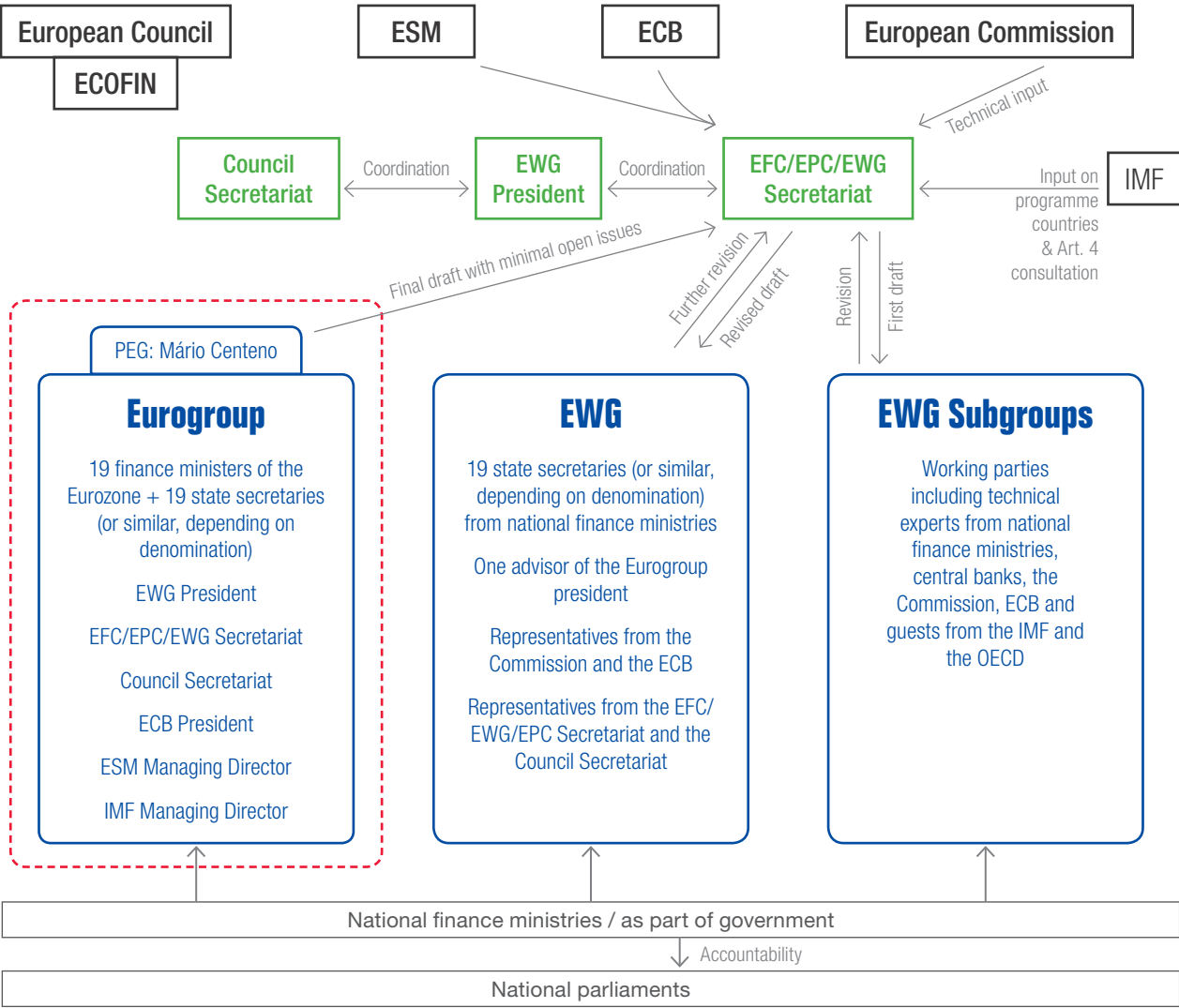


German long-time Finance Minister Wolfgang Schäuble and Greek Finance Minister Yanis Varoufakis clash in 2015

As is clear from this short overview, there is more to the Eurogroup than meets the eye. While the Eurogroup has held on to the minister-plus-one rule, various supranational institutions are routinely present at Eurogroup meetings at all levels. In addition, in the preparation of its meetings, the Eurogroup relies heavily on the technical input from the Commission. That said, it is important to be clear that the processes described in this section are not codified in Treaty law, and hence are subject to change. In crisis times in particular, such changes can happen ad hoc, in which case they tend to reflect the power imbalances between Member States. In 2015, for instance, Greece’s newly elected Syriza government requested a six-month extension of the second macroeconomic adjustment programme while it negotiated the follow-up programme with the Eurogroup. It is worth

noting that in the past, Greece had been granted two extensions to its second, EFSF-administered macroeconomic adjustment program originally due on 31 December 2014⁵³ – a fact that underscores the deeply political (and thus non-rule based) nature of these decisions. While the President of the Eurogroup and the Commission were ready to discuss the request for another extension, several euro finance ministers allied with German Finance Minister Wolfgang Schäuble, who expressed his firm opposition to the Greek government’s proposal. The German veto was based on the assessment of the request as “a Trojan horse” which would basically “put an end to the current program”⁵⁴ and was enough to block the Greek request from the agenda of the following Eurogroup meeting, where it was therefore not discussed.⁵⁵

Figure 1





TRANSPARENCY

How and why did the Eurogroup converge on the view that fiscal austerity was the only option for Greece? Who determined that Greece's debt burden was sustainable? Which institutions submitted analysis in support of these views, and who contested them? Today, years after the fact, research and memoirs have answered some of these questions. At the time, however, it was not at all clear how these decisions came about. There will be critical situations in the future – even another crisis – and the Eurogroup will again be making highly consequential decisions. Even if, as an informal gathering of finance ministers, the Eurogroup is non-transparent by design, democratic principles require that parliaments and citizens have access to sufficient information to scrutinize Eurogroup decisions not only years later but in real time. That said, any discussion of transparency needs to take into account a potential trade-off – transparency is a necessary condition for accountability, but it may hinder consensus-building in an intergovernmental setting.

TRANSPARENCY AND ITS RELATION TO ACCOUNTABILITY

Procedural transparency is a prerequisite for accountability. Only if parliaments and voters know who is responsible for a decision can they hold the correct actor to account. In the context of national politics, this is generally clear thanks to the hierarchical organization of the executive: The head of government bears ultimate responsibility for the actions of the government; ministers bear responsibility for the actions of their ministerial bureaucracies.

The accountability of an international, intergovernmental body, by contrast, depends crucially on transparency. In the absence of information about *how* the Eurogroup reached any

particular decision, it becomes difficult to hold those responsible to account. Are all finance ministers responsible for the decision? Or did some ministers oppose the decision but had to yield to the will of other countries, maybe because they represented 'debtor' countries and thus were in a weak position? Very often, a minister's disagreement will not be forceful enough to warrant the use of a 'veto', even if vetoes should, in theory, be possible in a consensus-based format. What role did the Commission, the ECB, the ESM and the IMF play in the decision-making process? Did ministers even consider (i.e., discuss) a particular draft budgetary plan before green-lighting EU opinions on them? Given the decentralised accountability regime of the Eurogroup, greater transparency is a prerequisite for national parliaments and voters to determine the responsibility of their own finance minister for any particular decision of the Eurogroup.

TRANSPARENCY AND THE CAPACITY TO REACH (GOOD) DECISIONS

Political scientists distinguish between input, throughput and output legitimacy.⁵⁶ The output legitimacy of the Eurogroup is a function of its ability to reach consensus and make decisions. According to our interview partners, this ability is a function of the extraordinary degree of confidentiality the Eurogroup maintains. Policymakers justify confidentiality on the grounds of output legitimacy, as a precondition for decision-making. Intergovernmental negotiations are difficult and usually require ministers to abandon some national demands in order to reach compromise, which is easier under conditions of confidentiality. The Eurogroup has been designed to maximise confidentiality. The idea behind the 'minister-plus-one' approach was precisely to create a

forum for discussion more intimate than Ecofin, where ministers are accompanied by several staff. Interview partners invariably made this point: The smaller number of participants in the Eurogroup fosters an atmosphere of collegiality and trust that is conducive to open discussions and consensus-building.

This justification runs into problems because of the greatly expanded scope and reach of Eurogroup decisions. Since the crisis, these decisions often affect core areas of domestic economic policy, including core state functions such as taxing and spending, especially in the context of macroeconomic adjustment programmes (see section ‘Accountability’ below).⁵⁷ The lack of transparency in the Eurogroup’s decision-making process means that citizens can make their voice – and, most importantly, their opposition – heard only after the fact, once a decision has been taken. In addition, the lack of transparency exacerbates power asymmetries between Member States. While in theory the consensus requirement should protect the interests of smaller Member States, in practice those states have a very limited ability to hold up proceedings or threaten a veto, especially if they are ‘debtor’ states. Confidentiality allows larger Member States – especially if they are ‘creditor’ states – to twist arms and put pressure on other members, whose tacit approval of initially opposed decisions will be covered by face-saving confidentiality.

What is more, the effect of confidentiality on the *quality* of decisions is not necessarily positive. Throughout the euro crisis, macroeconomic adjustment programmes often required greater fiscal austerity and lasted longer than expected. There is anecdotal evidence of episodes in which technical expertise fed into the Eurogroup was ignored when it did not suit the political preferences of the dominant ‘creditor’ countries, and contained a bias that tilted the analysis in favour of political preferences rather than state-of-the-art macroeconomics. In one notorious episode in February 2013, Commission Vice-President Olli Rehn wrote a letter to European finance ministers rebuking – without appropriate evidence – an influential paper by macroeconomists Oliver Blanchard and Daniel Leigh, which warned against aggressive austerity in a downturn.⁵⁸ An example of

biased expertise were the routinely overoptimistic macroeconomic forecasts for ‘debtor’ countries (especially in the case of Greece), provided mainly by the Commission, but also by the IMF and the ESM (for debt sustainability).⁵⁹ While the input for decisions thus came from technocratic institutions, the Eurogroup was the place where forecasts were discussed and where decisions based on these forecasts were ultimately taken. The importance of disagreements over technical assumptions in debt sustainability analysis came to the fore in the case of Greece when, in 2015, the IMF – which had earlier produced its own over-optimistic forecasts for Greece⁶⁰ – made debt relief a condition for participation in a third adjustment program. The question of the ‘correct’ debt sustainability analysis for Greece put a strain on the relationship between the IMF and the European institutions – to the point where the conflict erupted into public view in the form of two highly critical blog posts by the Director of the IMF’s European Department.⁶¹ When, at a Eurogroup meeting in June 2015, Greek finance minister Yanis Varoufakis asked Christine Lagarde, the IMF director, whether the third macroeconomic adjustment programme that was being discussed at the meeting would make Greece’s debt sustainable, Eurogroup President Jeroen Dijsselbloem interjected: “It is a take it or leave it offer, Yanis”.⁶²

A thin red line separates confidentiality from obscurity. Even if output legitimacy were the only yardstick, confidentiality does not necessarily lead to the best results. A new practice, introduced under the presidency of Mário Centeno, to invite academic researchers for occasional, topic-specific discussions, shows that input from outside can add value to Eurogroup discussions. But this is only a small first step. A more transparent deliberation process in the Eurogroup would allow outside actors – activists, academics, citizens – to express their views and make their voices heard. To be sure, this would likely lead to greater ‘politicization’ of Eurogroup proceedings. Given the highly political nature of Eurogroup decisions, this would be a desirable outcome. We do not share the Eurogroup’s equation of confidentiality with decision-making capacity, and recommend that greater openness and transparency have the potential to improve decision-making and policy outcomes.

THE RULES OF PROCEDURE OF THE COUNCIL

The best way to approach the question of the Eurogroup's transparency is via the rules of procedure of the Council. There has been a general trend towards informal Council formats. Within that general trend, the formation of the Eurogroup outside of the formal Ecofin Council structure constituted "the most radical case of institutional engineering".⁶³

The tendency for the Council formations to hold informal ministerial meetings was officially sanctioned by the conclusions of the Helsinki European Council in December 1999, which allowed such meetings but only under strict conditions and in clear separation from the Council's "normal activities".⁶⁴ Informal meetings are attractive to ministers for the same reasons the Eurogroup is attractive to finance ministers: Fewer people are in the room, there are no minutes and no recording of decisions (or rather: no formal decisions at all).

Measures intended to improve the transparency of Council proceedings unwittingly entrenched this differentiation between formal and informal meetings. The Seville European Council in 2002 and especially the Lisbon Treaty of 2009 introduced a distinction between legislative and non-legislative Council activities and mandated that the former be televised and open to the public.⁶⁵ Intended as a transparency-enhancing innovation, this measure had two effects. First, it revealed that most Council formations spent most of their time on non-legislative issues such as information exchange and policy coordination – in particular since much of the legislative business is taken care of in preparatory bodies below the ministerial level. Second, the Lisbon Treaty increased the time ministers and their officials spend at breakfasts and lunches. Meals are not considered formal meetings, thus allowing for confidential ministerial discussions of legislative issues in private. In the case of Ecofin, informal breakfast and lunch meetings "are usually restricted to ministers and deputy ministers and thus resemble the minister-plus approach of the Eurogroup".⁶⁶ From 2008 onward, the Ecofin

"breakfasts" in particular emerged as the central forum for economic policy coordination, both within the EU and with regard to the G20, often lasting as long as three hours while the main Ecofin meeting lasted only one hour.⁶⁷

Our interview partners confirmed this proliferation of informal Council meeting formats – an illustration, in their view, of ministers' preference for confidentiality. The Eurogroup epitomizes this preference, for it is entirely non-legislative, informal, and therefore confidential.

THE EUROGROUP'S TRANSPARENCY

Since the Eurogroup's business is never legislative, the Council requirement that legislative activities be accessible to the public does not apply. But what about the EU's general commitment to transparency? Art. 15(3) TFEU states that "the Union's institutions, bodies, offices and agencies shall conduct their work as openly as possible." This commitment, which is specified in Regulation (EC) 1049/2001 on public access to European Parliament, Council and Commission documents, is not applied to the Eurogroup. As Jeroen Dijsselbloem claimed in a letter to the European Ombudsman, the Eurogroup does *not* fall under these provisions.⁶⁸ First, as confirmed by the CJEU in its rulings on the Cypriot bail-in cases,⁶⁹ the Eurogroup "could not be classified as a body, office or agency of the EU 'within the meaning of Article 263 TFEU'".⁷⁰ Second, members of the Eurogroup may also meet in their capacity as governors of the ESM to which – the ESM is a body established under international law and outside the EU Treaties – these rules also do not apply.

That said, the Eurogroup did take three first steps towards greater transparency in 2016. First, the Eurogroup agreed on the timely publication of annotated agendas ahead of Eurogroup meetings (previously only agenda highlights were published on the Council website ahead of and removed after meetings). It also started to publish the summing-up letters of the President of the Eurogroup – usually a two- or three-page document summarizing the

results and decisions of a Eurogroup meeting. Third, the Eurogroup decided that “documents submitted to the Eurogroup will, as a rule, be published shortly after meetings.” This rule is qualified, however, by several restrictions that exclude from publication “(i) documents which are still work in progress, and/or subject to further substantial changes; (ii) documents containing confidential or market-sensitive information; and (iii) documents for which the author institution objects to their publication.”⁷¹

The latter provision gives substantial discretion to the European Commission and ESM, which, as confirmed by the Eurogroup President in his letter to the Ombudsman, prepare “the bulk of the Eurogroup documents.”⁷² In order for outside observers to be able to assess the extent to which the Commission and the ESM make use of their right to keep documents confidential, the Eurogroup disclosure practice should include a document register that specifies which, if any, documents have been withheld from publication. This register would not make the documents accessible, but limit itself to listing meta data – title, provenance, date, document number, status (e.g. draft).

Despite an explicit request by the Ombudsman to apply this improved transparency regime also to the EWG in order to “to shed some light on the EWG’s input to Eurogroup meetings”,⁷³ the Eurogroup has decided to preserve full confidentiality for the meetings of the EWG.⁷⁴ Given the importance of the technical level in Eurogroup activities, for an outside observer to be able to understand how a country-specific recommendation or a macroeconomic adjustment programme came about, it would be essential for that observer to be able to follow the (technical) paper trail between the Commission, the ESM and the ECB on the one hand, and the EWG sub-groups on the other hand.

SUMMARY

The Eurogroup’s lack of transparency is meant as a feature, not a bug. Confidentiality is supposed to facilitate the forging of compromises, and thus to help the Eurogroup take decisions at all. Resolving this trade-off in favour of decision-making and at the expense of transparency seemed legitimate when the decisions of the Eurogroup were of little direct consequence at the national level. Since the crisis, this has changed – both during normal times and in a future crisis scenario, Eurogroup decisions have significant economic consequences at the national, euro area, and even at the global level. Presenting the Commission’s view that the Eurogroup Presidency should be merged with the role of a European Commissioner, Pierre Moscovici, the Commissioner for economic and finance affairs, has described as “unacceptable” that “we are deciding behind closed doors the fate of 11 million people.”⁷⁵ Under these conditions, transparency gains a renewed urgency. Parliaments and voters need to have sufficient insight into the decision-making process to be able to follow – and thus to challenge – decision-making in real time.

RECOMMENDATIONS

- ✓ In addition to publishing working documents on the Council website, the Eurogroup should also publish a document register listing all Eurogroup documents, including those already published and those *withheld* from publication, so as to enable interested parties to file access to information requests
- ✓ Apply the Eurogroup’s transparency regime – especially the publication of technical working documents and detailed agendas – also to the Eurogroup Working Group

ACCOUNTABILITY

The functioning of the European Union is “founded on representative democracy” (Art. 10 TEU). Ever since the 1980s, however, scholars have debated whether the EU suffers from a democratic deficit, paving the way for improvements in the powers of the European Parliament to hold supranational actors to account at the EU-level, overcoming the limitations of decentralised accountability previously afflicting EU bodies. The level of transparency of EU institutions and of the democratic participation of civil society and industry representatives via lobbying has also improved markedly over the years, ensuring a higher level of transparency for EU institutions (except the Council) than is the case in most Member States.

In spite of these improvements, the euro crisis has settled this debate for now – in favour of the democratic-deficit hypothesis. Indeed, EU scholars have gone as far as criticizing the European system of economic governance as essentially *undemocratic*, using concepts such as “democratic emergency”, “liberal authoritarianism”, “authoritarian turn” or “constitutional deconstruction”.⁷⁶ EU policy makers have at times employed similarly drastic language, with European Commissioner for Economic and Financial Affairs Pierre Moscovici calling the Eurogroup a “rather pale imitation of a democratic body”,⁷⁷ while official EU blueprints for the further development of EMU time and again emphasised the need to overcome “cumbersome procedures”, while improving transparency and accountability.⁷⁸

There are two basic elements to democracy: the democratic principle that “everyone affected by a decision should have a chance to participate”⁷⁹ and the accountability of the executive branch of government to the electorate. This section concentrates on the issue of accountability (democratic participation will be discussed in the final section).

THE LACK OF JUDICIAL AND PARLIAMENTARY ACCOUNTABILITY AT THE EU-LEVEL

The Eurogroup is the key actor within the executive branch of the euro area. The problem is easily stated: In an extreme form of “executive dominance”,⁸⁰ the Eurogroup itself is not collectively accountable to any other European body – not to the European Parliament and not even to the European courts, given that it is not even possible to legally attribute any decisions taken to the Eurogroup, which formally speaking is a mere consensus building body without any authority to take decisions of its own. This violates the principle, stated by the Presidents of the major EU institutions in the ‘Four Presidents Report’ of 2012, that “democratic control and accountability should occur at the level at which the decisions are taken.”⁸¹ Before we turn to the main topic of this section – the Eurogroup’s *decentralised* accountability mechanism – it is important to appreciate why and how the Eurogroup escapes both judicial review and parliamentary accountability at the European level.

Judicial accountability at the EU level

Accountability to the EU judiciary has been an issue for two main reasons. First, the ESM, under the ultimate political authority of the Eurogroup,⁸² concludes memoranda of understanding (MoUs) with borrower countries (formally signed by the European Commission on behalf of the ESM). In several cases the conditions included in those



MoUs have required national governments to take measures that affected citizens' rights protected under EU law, especially the Charter of Fundamental Rights.⁸³ Such conditions arguably exceeded the regular remit of EU competencies in those policy areas, as well as the normal scope of fiscal and economic policy coordination. Second, statements of the Eurogroup can directly affect citizens' rights, especially in the context of macroeconomic adjustment programmes.

To date, MoUs and Eurogroup statements have not been subject to judicial review by the Court of Justice of the European Union. Complaints against the ESM and the Eurogroup filed by claimants from Portugal, Romania, and Cyprus have invariably been ruled inadmissible by the Court of Justice and the General Court.

Specifically, in decisions 'Pringle' (Ireland) and 'Ledra Advertising' (Cyprus), the Court of Justice ruled that the ESM was established outside of EU law, and that the Charter of Fundamental Rights did therefore not apply to actions undertaken by a national government in implementation of an MoU it had signed with the Commission acting on behalf of the ESM.⁸⁴ The Court has upheld this view even in light of the fact that the ESM delegates monitoring of programme countries' compliance with an MoU to the European Commission and the ECB, which are established under and thus bound by EU law, including the Charter.

In the 'Mallis' case, claimants sought compensation from the Commission and/or the ECB in connection to Eurogroup statements that led to the bail-in of bank deposits in excess of €100,000 in the restructuring of two Cypriot banks in 2013. In its judgement, the Court ruled that "as the Eurogroup is not a decision-making body, a statement by it cannot be regarded as a measure intended to produce legal effects with respect to third parties."

This reasoning of the CJEU seems, at best, legalistic. It ignores the fact that the Eurogroup *does* take decisions – in particular when deciding the conditions attached to macroeconomic adjustment programmes. The view that the Court has shown exceptional "judicial restraint when faced with situations of economic emergency" is widely shared among legal scholars.⁸⁵ In addition, the Court's judicial restraint regarding the Eurogroup's political responsibility for the design and implementation of adjustment programmes contrasts with the Court's assertive stance in other areas. In light of the far-reaching nature of the conditions attached to these programmes, "the EU's level of influence in this area is not matched by an appropriate degree of judicial control."⁸⁶

Parliamentary accountability at the EU level

Before 2006, the Eurogroup did not interact with the European Parliament at all. Although some steps have since been taken towards greater engagement, these do not give the European Parliament any substantial powers to hold the Eurogroup accountable or to match the increased influence of the European Semester on national budgetary policies.

During the first years following the foundation of the Eurogroup, its President rarely appeared at the European Parliament, which held regular hearings only with the rotating Ecofin President. Jean-Claude Juncker, who took over the Eurogroup Presidency in January 2005, became the first President of the Eurogroup to be invited to the Parliament's Committee on Economic and Financial Affairs (ECON) every six months. These hearings have not, however, been codified in law, and at best allow MEPs to ask questions. When Jeroen

Dijsselbloem rejected a request by the European Parliament for a hearing on Greece in early April 2017, there was nothing the Parliament could do to compel his presence (or indeed, answers). It should be noted that then-President Dijsselbloem took another occasion to answer Parliament's questions, following a parliamentary uproar.

In the area of fiscal policy – historically the core area of national parliamentary power – the influence of the European Semester on national budget policies has increased as a result of the 'six-pack' and 'two-pack' legislation as well as the 'fiscal compact'. This empowerment of the European executive branch – including the Eurogroup, which plays a central role in particular with regard to the EU opinions on (and possible rejection of) draft budgetary plans – has not been matched by a concomitant increase in the participation rights of the European Parliament.

A similar picture emerges for the European Semester as a whole (see Box 1 for an overview). The key actors in the European Semester are the Commission and the European Council, the latter endorsing the former's wide-ranging country-specific recommendations.⁸⁷ The participation of the

European Parliament takes the form of a series of 'economic dialogues' with the Commission and the Council. These dialogues are designed "to ensure greater transparency and accountability", but are largely limited to information and consultation.⁸⁸ Mere 'dialogue' is unlikely to give the Parliament a sense of ownership – let alone authority – over the European Semester. Without such ownership, it is difficult to mobilise scarce parliamentary attention and resources.

In sum, democratic control and accountability of the Eurogroup does not occur at the level at which an increasing number of important decisions are taken – that is, at the European level. Instead, finance ministers and their governments are politically accountable at the national level to national parliaments (in parliamentary systems) and, most importantly, to voters in national elections. The remainder of this section discusses the theoretical conditions for this decentralised accountability regime to function. It will be shown that, as result of the combination of increased Eurogroup competences and increased power asymmetries between 'creditor' and 'debtor' countries, decentralised accountability is not fit for purpose.



Graffiti in front of the Greek Parliament

INTERGOVERNMENTALISM AND DECENTRALISED ACCOUNTABILITY IN THEORY

Closely linked to Abraham Lincoln's notion of "government by the people"⁸⁹, political accountability rests on two conditions: responsibility and responsiveness.⁹⁰ In representative democracies, periodic elections are a basic mechanism to hold political actors *responsible* for political decisions. If a majority of voters disapprove of a government, they can vote that government out of office. The threat of electoral defeat increases governmental *responsiveness* to the preferences of citizens.

In macroeconomic policy, the Eurogroup, in the words of the ESM Managing Director, "already works as a government of sorts."⁹¹ Besides the Commission and the ECB, the Eurogroup is part of the executive branch of the euro area. However, unlike the Commission and the ECB, whose statutes provide comprehensive accountability mechanisms,⁹² the Eurogroup lacks collective political accountability.

Instead, the Eurogroup's accountability is decentralised, based on the national accountability mechanisms of the participating Member States. These mechanisms can be understood as a chain of principal-agent relationships. In parliamentary systems, voters (principals) delegate sovereignty to elected representatives (agents) who in turn, depending on the parliamentary majorities, delegate (as principals) responsibilities to the government and the individual ministers (agents). The accountability chain runs in the opposite direction: The government and its ministers are accountable to the parliament, which is accountable to the electorate, the democratic sovereign.⁹³ The accountability of the Eurogroup is the product of the independent operation of 19 separate, national accountability chains.

In order for decentralised political accountability to function, two highly demanding conditions must be met. First, decisions must be taken by consensus. Second, the bargaining powers of the 19 finance ministers must be largely symmetrical.

The consensus principle is a basic requirement for national accountability chains. It guarantees that if a Eurogroup decision runs against the interests of a national electorate, the parliament and/or the electorate can hold the national government accountable. A hypothetical majority rule in the Eurogroup, by contrast, would severely impair this decentralised accountability mechanism. If a majority of voters opposed a Eurogroup decision that their own finance minister had voted against, their only recourse would be to punish a government that bears no direct blame for the decision in question. In addition, the country would be bound by the Eurogroup decision regardless of whether the finance minister or the government stay in office.

The second condition concerns the distribution of bargaining power between the participating ministers. Even with formal equality (unanimous decisions), informal inequality between Member States can hamper the decentralised accountability mechanism. A finance minister may oppose a certain measure, yet the final statement of the President of the Eurogroup may not fully take that opposition into account. In the absence of a formal vote, this finance minister may shy away from the nuclear option of issuing a separate statement to voice his or her dissent with the official statement.⁹⁴

In practice, some Member States are more equal than others. This asymmetry is partly a function of size, but not exclusively. Most of our interview partners emphasised the importance of technical expertise. Ministers who know their briefs speak more and are taken more seriously by their colleagues. While ministerial preparedness may reflect personal qualities (or lack thereof), it also reflects ministerial resources – the capacity of national bureaucracies to process relevant information, to maintain and make use of communication channels with the EWG-Secretariat and EU Commissioners, and with other finance ministries, and to formulate clear national positions on most agenda items – including documents covering not their own, but other Member States. In practice, only Germany and France dedicate sufficient resources to Eurogroup matters to accomplish all of these tasks.

Given this de-facto power asymmetry, the only way to salvage the decentralised accountability regime

would be if the power of the Eurogroup was limited to Pareto-superior decisions – decisions that have benefits for at least one member state without leaving any individual member state worse off. Macroeconomic governance, however, is a policy area in which decisions often create both winners and losers. This was especially true during the euro area crisis, during which the Eurogroup became a battleground for distributional conflicts between Member States.

Additionally, it would be difficult to establish what decisions would be Pareto-superior given vastly diverging macroeconomic traditions among euro area Member States.⁹⁵

POLITICAL ACCOUNTABILITY IN QUIET TIMES: THE FIRST DECADE

During the first ten years of its existence, the Eurogroup largely met the conditions for a decentralised accountability regime. Its self-description as a ‘coordination device’ for policy deliberation, mutual learning and consensus building was broadly accurate.⁹⁶ Meeting conclusions were based on a consensus among finance ministers, so that the unanimity condition was met. Asymmetries in the expertise, size, or power of member size, although they existed, did not ultimately matter so much because Eurogroup conclusions were non-binding.

This can be illustrated by the Broad Economic Policy Guidelines (BEPGs), the main instrument of economic policy coordination within the Eurogroup at the time. BEPG recommendations cover macro- and microeconomic policies, including structural reforms in product, labour and capital markets. If implemented, these recommendations could have had considerable distributional effects in Member States. In practice, however, they were rarely implemented.⁹⁷ This leniency helped maintain the consensual spirit within the Eurogroup.

In short, a benign macroeconomic environment and the inconsequential nature of Eurogroup meetings meant that the Eurogroup’s decentralised accountability regime was hardly tested during

the Eurogroup’s first decade. During the second decade, this changed dramatically.

POLITICAL ACCOUNTABILITY IN CRISIS TIMES: THE SECOND DECADE

The scope of Eurogroup activities increased greatly during the euro crisis (see section 3 above). In the process, the conditions for decentralised accountability eroded: Although the consensus principle remained in place, large disparities in actual bargaining power emerged as the crisis divided the Eurogroup’s members into ‘creditor’ and ‘debtor’ countries. Additionally, the fact that large countries shouldered the bulk of the bailout programme in absolute terms added to an expectation of asymmetry in public discourse, even while all countries contributed the same amounts to ESM programmes, in percentage of GDP terms. Additionally, countries such as Italy were in public discourse and within the Eurogroup treated as (potential) ‘debtor’ countries, even while receiving no bailout and contributing as much to other bailouts as ‘creditor’ countries. In practice, decision-making became much more hierarchical, and skewed towards the interests of the now dominant creditor countries.

This development severed the relationship between the level of political decision-making (the Eurogroup) and its political accountability (national parliaments and elections). The result has been an accountability gap of the Eurogroup that is very difficult to fix under existing institutional arrangements.

The conditions for decentralised accountability erode: From consensus to domination in the Eurogroup

Throughout the crisis, decision-making by the Eurogroup remained consensus-based. However, the ‘consensus’ that emerged was tilted towards fiscal consolidation – the preferred policy of the ‘creditor’ countries. This change



has been described as a shift “from consensus to domination”, and thus to a situation in which the distribution of bargaining power was highly asymmetric.⁹⁸ It was supported by the consistently over-optimistic forecasts of the Commission, the ECB and the ESM for growth rates, inflation rates and, in the case of Greece, debt sustainability (see above, section ‘Transparency and the capacity to reach (good) decisions’).

The relationship between creditor and (potential) debtor is never just a commercial relationship but is, always and everywhere, infused with power.⁹⁹ This is true for individuals as well as for countries. John Maynard Keynes built his case for an international clearing union on the argument that institutions were needed to mitigate this power asymmetry between states.¹⁰⁰ In the euro area, this power asymmetry manifested itself through the shrinking set of choices available to ‘debtor’ countries.

This power asymmetry certainly was not the fault of creditor countries alone. Economic and political decisions taken in debtor countries were generally an important factor. At the same time, it is important to acknowledge a crucial specificity of the euro area: failure to play by the rules – as defined and interpreted by the Eurogroup and the Troika – would not only cause countries to lose access to international capital markets (as in other cases of

sovereign default), but could lead to their forced expulsion from the euro area. Under the current institutional architecture, the ECB is likely to end up as final arbiter, due to its ultimate control over national central banks’ ability to provide emergency liquidity assistance to their national banking sectors. When Greece signed its third macroeconomic adjustment programme, its membership in the euro area was effectively on the line due to this mechanism.¹⁰¹ Under such circumstances, any semblance of equal bargaining power is clearly lost.

Responsibility partly maintained: Accountability through elections

The political accountability of the Eurogroup rests on the independent operation of 19 separate national accountability chains. The finance ministers and governments of EMU Member States are accountable to democratically elected national parliaments which represent the political preferences and interests of their citizens. The legitimacy of the intergovernmental Eurogroup thus depends on the legitimacy resources of the individual national governments. It is thus important to have a closer look at the quality of political accountability mechanisms at the national level as well as their partial deterioration during the euro crisis.

During the emergency phase of the euro crisis from 2010 to early 2013, the number of snap elections and the salience of the euro crisis in electoral campaigns shot up. Out of 15 elections that were held during this period, only five took place in line with the election calendar. In eleven cases the euro crisis triggered early elections and dominated the electoral campaign. The government changed in all but two countries. In Greece and Italy, moreover, technocratic governments replaced elected governments in November 2011.¹⁰²

This increase in the number of snap elections and changes of government suggests that voters succeeded in holding governments responsible for their crisis-related actions. This conclusion would overlook, however, that responsibility had shifted: during the crisis, decisions with far-reaching consequences for individual ‘debtor’ countries were taken by the Eurogroup. This undermines the responsibility-aspect of accountability. If the Eurogroup decides on measures for Portugal that the finance minister of Portugal has, in view of the alternatives, very limited means of rejecting, then Portuguese voters have no way of holding those truly *responsible* for the decision – the finance ministers of *other* Member States – to account.

Responsiveness breaks down: Debtor-creditor asymmetries

During the euro crisis, the capacity of governments to be *responsive* to the economic and social preferences of their electorates varied enormously between ‘creditor’ and ‘debtor’ countries. This structural asymmetry is something of a taboo topic in official Brussels discourse. None of our interview partners was ready to discuss what most observers agree has been an obvious and inescapable reality in the euro area.

In ‘creditor’ countries, governments retained their capacity to be responsive. Where citizens’ votes signalled a preference for a limited and restrictive euro rescue regime, newly elected governments generally were able to follow that

mandate in the intergovernmental arena of the Eurogroup and the European Council.

Slovakia is a case in point: After a change in government from centre-left to centre-right in June 2010, Slovakia revoked its decision to participate in the first EU-IMF rescue package for Greece. Other Member States and the European Commission had little leverage over Slovak finance minister Ivan Miklos, and could merely appeal to European solidarity. Commissioner Olli Rehn said he could “only regret this breach of solidarity within the euro area and I expect the Eurogroup and the [Economic and Finance Ministers’] Council to return to the matter in their next meeting.”¹⁰³

Indeed, throughout the euro crisis, ‘creditors’ wielded strong influence over the design of loan agreements and programme conditionalities, as well as over the EMU reform process.¹⁰⁴ Most crisis-related institutional changes in the governance architecture of the EMU have been geared towards *reducing* risks in Member States, as opposed to *sharing* risks between Member States.¹⁰⁵ Prominent examples are the revamped Stability and Growth Pact and the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) – the fiscal compact.

In ‘debtor’ countries, by contrast, government capacity to be responsive to voter concerns declined dramatically during the euro crisis. Already in early 2012, it was clear to observers that in



crisis-hit countries, “party politics seems to be in suspended animation, as if the times were too tough for it.”¹⁰⁶ Once in government, parties found themselves confronted with euro area obligations and conditionalities, with little to no room for political manoeuvre. When governments and parliamentary majorities accepted the adjustment programmes agreed on by the Eurogroup, they effectively did so ‘under duress’.¹⁰⁷

Take the example of Greece again. From George Papandreou’s aborted 2011 referendum over the second bailout package¹⁰⁸ to Alexis Tsipras cooperation with the Troika, Greek voters experienced a succession of governments lacking the capacity for responsiveness. Elections and changes in government had little influence on the trajectory of economic policy in Greece because the terms of adjustment programmes were determined by the Troika acting on behalf of the Eurogroup.¹⁰⁹

It is important to acknowledge that, as mentioned above, power asymmetries are inherent to the creditor-debtor relationship. In the case of states, the ‘enforcement mechanism’ is what economists call ‘market discipline’ – loss of access to (international) capital markets, with potentially catastrophic economic consequences. Although market discipline is augmented by the threat of expulsion from the common currency, the loss of sovereignty suffered by debtor states is not unique to the euro area, as illustrated, for instance, by the case of Argentina.

This caveat does not, however, undermine our critique of the decentralised accountability regime of the Eurogroup. If a parliamentary ‘no’ vote in a creditor-country is not a viable option, then this undermines the democratic legitimacy imparted by a ‘yes’ vote. When a national parliament accepts an adjustment programme under a de-facto threat of expulsion from the euro area, the vote cannot be construed as legitimizing the decision of the Eurogroup and the consent of the national finance ministers. In that sense it is accurate to say that “the EU crisis response made euro membership in the periphery [...] less compatible with national democratic choice.”¹¹⁰ For debtor countries, the decentralised political accountability mechanism of the Eurogroup thus broke down during the euro crisis.

When government responsiveness breaks down, the problem of accountability merges with the problem of participation, which constitutes the second basic element of democracy. In countries under macroeconomic adjustment programmes, citizens rightfully felt that their governments – and therefore they themselves, as citizens – had lost control over economic policy in their countries. They could still vote the incumbent government out of office and replace it with a different one, but the room for manoeuvre of the new government would again be tightly circumscribed by external constraints – decided by the Eurogroup, monitored by the Troika.

Recent research has found significant negative effects of reduced national autonomy in economic policy on the legitimacy and viability of democratic institutions. In Member States under externally enforced adjustment programmes, citizens’ satisfaction with democracy is significantly lower than in the rest of the euro area – an effect researchers ascribe to the perception of living in a “democracy without choice”.¹¹¹ Similarly, the severe constraints imposed on ‘programme countries’ have been shown to substantially reduce voter turnout even among the highly educated, who abstain from voting because they anticipate government inefficacy.¹¹²

ANOTHER CREDITOR-DEBT OR ASYMMETRY: STRONG VS. WEAK PARLIAMENTS

The above discussion of the Eurogroup’s lack of accountability highlighted factors endogenous to the euro crisis – namely the power asymmetry between ‘creditor’ and ‘debtor’ countries. There is, however, an additional factor that exacerbates this accountability imbalance, and that is firmly established in the political science literature: The power of national parliaments vis-à-vis their own national governments, for reasons largely unrelated to the crisis, tends to be larger in ‘creditor’ countries than in ‘debtor’ countries.



The finance ministers of Portugal and Spain, Centeno and De Guindos, incurred a fine of 0 % of GDP in 2016

To begin with, a parliament with strong participation rights in European affairs is a constraining factor for a minister negotiating in the Council. However, a savvy negotiator can turn this constraining factor into bargaining strength in Brussels. This mechanism was clearly present in euro crisis management. Finance ministers (and heads of state or government) with strong parliaments at home could argue that their hands were tied and their room for manoeuvre limited, potentially confronting Brussels negotiating partners with a fait accompli. Since parliaments are often less assertive in 'debtor' countries than in 'creditor' countries, this mechanism has further exacerbated the accountability gap for the former.

National parliaments have generally been considered 'losers' of European integration. However, their role in EU affairs has steadily increased over the last decades. The European responsibilities and tasks of national parliaments stem from two basic legal sources: European law and national law. The Lisbon Treaty grants equal rights to all national parliaments – Article 12 of the Treaty on European Union (TEU) and Treaty Protocol No. 1 on the role of national parliaments

in the EU award substantial information rights and authorise formal and informal channels of interparliamentary cooperation.

In addition to EU primary law, a large variety of national constitutional and statutory provisions afford national parliaments certain rights regarding scrutiny of EU legislative activities and procedural aspects of EU treaty ratification. It is these national rules that are the main source of *de jure* power imbalances between the legislative branches of Member States.¹¹³

As a result of developments predating the euro crisis, the most powerful national parliaments in Europe can be found in 'creditor' countries, in particular Austria, Finland and Germany. Recent rulings of the Federal Constitutional Court (*Bundesverfassungsgericht*) have further increased the rights of the German *Bundestag* in euro area crisis management. By contrast, France, as well as most 'debtor' countries, including Cyprus, Greece, Portugal and Spain, have parliaments whose EU-related rights are weak by comparison.¹¹⁴

It is needless to say that even the strongest parliamentary rights are of little value when the capacity of a political system to be *responsive* to the values and interests of its citizens is weak. If the executive is faced with impossible choices in Brussels – as has been the case for the 'debtor' countries during the euro crisis – parliamentary participation and control rights alone cannot ensure political accountability.

Take the example of the ratification processes of the *Treaty Establishing the European Stability Mechanism* (TESM) and the *Treaty on Stability, Coordination and Governance* (TSCG). The Greek parliament was first to ratify the two international treaties on 28 March 2012 – less than four weeks after they had been signed by the E(M)U heads of state and government.¹¹⁵ The same holds true for the other 'debtor' countries. Since ratifying the TSCG was made a prerequisite for the application of funds at the European Stability Mechanism (ESM), treaty ratification became a binary 'take it or leave it' choice.

Contrast this with the German case. The *Bundestag* ratified the two treaties only on 29 June 2012, following a series of extensive and controversial public debates. Additionally, several MPs called upon the Federal Constitutional Court to judge the constitutionality of the two treaties. In its autumn 2012 judicial decision, the court underlined the fiscal sovereignty of the *Bundestag* and strengthened its role in decisions on the disbursement of ESM funds.¹¹⁶

The example illustrates what scholars of euro area governance have described as an “asymmetric two-level game”.¹¹⁷ During the crisis, the strength of parliamentary participation rights did often not matter much in ‘debtor’ countries, which depended on the disbursement of emergency loans and therefore had no choice but to accept the conditions imposed by ‘creditor’ states. It does matter, however, for ‘creditor’ country governments, which have learned to use strong parliaments at home to leverage their bargaining position in Brussels. Several of our interview partners confirmed that this asymmetry existed and that German, Austrian, and Finnish finance ministers in particular used their strong parliaments at home to influence Eurogroup negotiations over the disbursement of ESM funds and related issues.

Finally, it should be noted that even in the case of strong parliaments, there is little indication that they systematically fulfil their role in holding national finance minister to account. For this to happen, the parliamentarians would need to not just get information on, but even take an active interest in, their finance minister’s decisions within the Eurogroup – also decisions that do not impact their own country. This is made necessary by the fact that all Eurozone finance ministers are asked to green-light the EU opinions on the draft budgetary plans of all other euro area countries. Contentious decisions, e.g. about Italy’s 2019 budget, do attract more attention, and will be debated in a larger number of national parliaments than usual, given that draft budgets had not so far been rejected by the EU. But the similarly controversial decision in 2016 to set fines for Spanish and Portuguese budget rule breaches at 0 % of GDP, effectively

deciding not to levy any fines, did not receive similar levels of attention. While the decision was made upon a proposal by the Commission, and could only have been amended by the Ecofin Council via a qualified majority vote (QMV, roughly a two-thirds majority), the zero-fine reportedly resulted from informal pressure on the Commission from German finance minister Wolfgang Schäuble, due to short-term electoral pressure in Spain – and resulted in the same treatment for Portugal, which would also otherwise have faced a fine.¹¹⁸

This is one of many instances of finance ministers not being held to account for their decisions by their national parliaments. The episode also shows why informality and limited accountability are in the (short-term) interest of finance ministers who have to take sensitive decisions.

SUMMARY

The goal stated in the ‘Four Presidents Report’ of 2012 that “democratic control and accountability should occur at the level at which the decisions are taken” is not currently met for the Eurogroup.¹¹⁹ Both in crisis management and in day-to-day monitoring under the European Semester, decision-making power has shifted to EU-level actors, most notably to the Eurogroup *as a whole*. And yet, the Eurogroup escapes both judicial review and parliamentary accountability at the EU level. Instead, the finance ministers participating in the Eurogroup are accountable only at the national level. This decentralised accountability mechanism can function only under difficult conditions: if Eurogroup decisions are taken unanimously, if bargaining power is distributed relatively equally among Member States, and if national parliaments take an equally strong interest in decisions regarding all euro area countries, beyond their own. These conditions were met, and the accountability regime therefore ‘fit for purpose’, when the Eurogroup focused mainly on economic policy exchange and mutual learning, but did not take any decisions. Since the euro crisis, these conditions have clearly no longer been met.



Long-time German Finance Minister Wolfgang Schäuble

The picture regarding the Eurogroup's accountability is therefore bleak. As German finance minister Wolfgang Schäuble has put it: "Elections change nothing. There are rules."¹²⁰ However, where Schäuble saw rules, the Finnish finance minister saw Germany's raw power: "Schäuble has been the treasurer of Europe and the de facto finance minister for the eurozone."¹²¹ While both quotes should be taken with a grain of rhetorical salt, they perfectly summarise the malaise of the Eurogroup's accountability regime. When votes and electoral outcomes can "change nothing", while the finance minister of a 'creditor' country is described as the "de facto finance minister" of several 'debtor'

countries, citizens (rightly) see "constrained government" and "democracy without choice", with negative consequences for their participation in elections and their satisfaction with democracy.¹²² This is consistent with Seymour Martin Lipset's warning that without democratic participation and accountability, a society loses the capacity "to engender and maintain the belief that the existing political institutions are the most appropriate ones."¹²³ In other words, what is at stake in the debate about economic governance in the euro area is nothing less than the legitimacy, and viability, of liberal democracy.¹²⁴

CASE STUDY: EXCESSIVE DEFICIT? THE CONFLICT OVER ITALY'S 2019 BUDGET

The current conflict between Italy and the European Union – represented by the Commission, the Council, and the Eurogroup – revolves around the Stability and Growth Pact and takes place within the framework of the European Semester. Before entering into the details of the case, three preliminary remarks. First, the current Italian government did not (threaten to) violate the rules of the Stability and Growth Pact by accident. Instead, its actions have widely been perceived as a deliberate attempt to test these rules. Second, although the Lega and the Five Star Movement are widely seen as forces hostile to the EU in its current form, their criticism of European fiscal rules cannot easily be dismissed. Indeed, key technocratic insiders have recently questioned whether the fiscal rules and indeed the European Semester are fit for purpose, lamenting in particular the combination of strict rules and political discretion, and the corrosive effects on trust between member states. Third, this report does not take a position regarding the content of the fiscal rules of the Stability and Growth Pact. Instead, the premise is that while the rules may well be unfit for purpose, selective (non-) enforcement constitutes the least legitimate – from a democratic accountability perspective – way of addressing the problem.

THE STABILITY AND GROWTH PACT – A PRIMER

The European Semester is an annual cycle of policy coordination that seeks to align the economic policies of member states with the rules agreed at EU level. While one part of the European Semester deals with macroeconomic imbalances, the other, currently more contentious part deals with budgetary and structural policies. The rules governing the budget-related part of the European Semester are laid down in the **Stability and Growth Pact (SGP)**. The original version of the SGP was signed by member states in 1997 and amended in 2005 and 2011. In 2013, the Two Pack and the Fiscal Compact further tightened the European Semester, and thus EU control over national budgetary policies.

The Stability and Growth Pact consists of a 'preventive arm' and a 'corrective arm'. The **preventive arm** is based on Article 121 of the Treaty on the Functioning of the European Union. Its operation is set out in Council Regulation 1466/97 (latest amendment: 1175/11), which defines the parameters of mutual surveillance mechanisms designed to "prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies." The document on the basis of which the Commission assesses ex-ante compliance with the preventive arm is the **Stability Programme** that each member state must submit annually in April. In these Stability



Italian debt will remain a flashpoint for euro area economic governance

Programmes, member states present their **medium term budgetary objective** (MTO), outline the measures they intend to take to meet or get closer to those objectives, and discuss the assumptions on which their forecasts of macroeconomic variables rest, especially if they deviate significantly from the Commission's latest forecasts. When submitted in April, a Stability Programme must cover the preceding year, the current year and at least the following three years.

Two important issues regarding the medium term budgetary objective need to be considered. First, the MTO is defined in *structural* terms – it represents the cyclically-adjusted budget position of the government, net of one-off and other temporary measures. In other words, calculating the government's deficit or surplus for the purpose of the medium term budgetary objective requires eliminating any transitory factors. In practice, this requires calculating the difference between an economy's actual output (gross domestic product) and a hypothetical, model-based 'potential output'. The resulting 'output gap' is interpreted as indicating the cyclical position of the economy – for example, during a recession, the output gap would

be particularly large.¹²⁵ Second, the lower bounds for each member state's medium term budgetary objective are estimated every three years by the Commission. Member states, in their Stability Programmes, then need to adopt a medium term budgetary objective in line with (or more ambitious than) those lower bounds.

The **corrective arm** of the Stability and Growth Pact is based on Article 126 and Protocol N° 12 of the Treaty on the Functioning of the European Union. Its operation is set out in Council Regulation 1467/97 (latest amendment: 1177/11), which specifies the rules and mechanisms of the **Excessive Deficit Procedure (EDP)**. As illustrated in Figure 3, which is to be read from top to bottom, the EDP encompasses a series of steps whereby the Commission issues recommendations that are then adopted or amended by the Council or, in the case of euro area member states, by the Eurogroup. The Excessive Deficit Procedure foresees gradual escalation, culminating in financial penalties imposed on member states of up to 0.5% of GDP, as well as the suspension of all payments linked to European Structural Funds. To date, no member state has seen such penalties imposed on them.

Figure 2: The steps of the Excessive Deficit Procedure. Read from top to bottom.

1. Commission report (Art. 126.3)
2. EFC opinion (Art. 126.4)
3. Commission opinion on the existence of an excessive deficit (Art. 126.5)
4. Commission proposal on the existence of an excessive deficit (Art. 126.6)
5. Council decision (QMV) (Art. 126.6)
6. Commission recommendation for a Council recommendation (Art. 126.7)
7. Council recommendation with deadline (QMV) (Art. 126.7)
8. Commission recommendation on the lodging of a non-interest-bearing deposit (0.2% GDP)
9. Council/Eurogroup decision (RQMV for adoption, QMV for amendment)
10. Commission recommendation for a decision establishing inadequate action (Art. 126.8)
11. Council decision (QMV) (Art. 126.8)
12. Commission recommendation for a decision to impose a fine (0.2% of GDP)
13. Council/Eurogroup decision (RQMV for adoption, QMV for amendment)
14. Commission recommendation for a decision to give notice to take measures (Art. 126.9)
15. Council/Eurogroup decision with deadline (QMV) (Art. 126.9)
16. Commission recommendation for a decision to impose/ intensify sanctions (Art. 126.11)
17. Council/Eurogroup decision (QMV) (Art. 126.11)

Steps in bold: For euro area Member States only; voting only among euro area Member States.

QMV: qualified majority voting.

RQMV: reverse qualified majority voting.

The preventive arm of the Stability and Growth Pact is designed to keep member states out of the corrective arm, which is considered “the end of the line” of the budgetary surveillance mechanism of the SGP.¹²⁶ In practice, however, most member states were under Excessive Deficit Procedures in the wake of the financial and economic crisis of 2008-09. Since then, all of these member states have exited their procedures in recent years.

The newly opened Excessive Deficit Procedure against Italy is arguably different. Italy has had the worst macroeconomic performance of all member state of the euro area, with the exception of Greece.

In spite of stagnating economic growth, Italy has run primary budget surpluses (before interest payments) since 1992, with the exception of 2009. The reason the debt levels nevertheless kept increasing have been very high interest payments around 4 per cent of GDP – a legacy of the poor public debt management in the 1980s.¹²⁷ Italy’s fiscal woes are thus the result not of fiscal profligacy but of a stagnation of both productivity and GDP growth since about 1995. It is hard to deny the argument – frequently evoked by the current government – that reducing the debt-to-GDP level via the numerator (i.e. via the nominal debt rather than GDP growth) has not worked for Italy.

PRELUDE: FOUR YEARS OF ARTICLE 126(3) REPORTS ON ITALY'S BUDGETS

The current conflict between Italy and the EU takes place within the legal framework of the Excessive Deficit Procedure. On 21 November 2018, the European Commission formally announced its intention to open an Excessive Deficit Procedure against Italy, which was staved off by an eleventh hours deal on 12 December. The remainder of this case study will recount how we got there.

The appropriate moment to begin is April 2018. The general election in Italy had taken place on 4 March. Matteo Renzi, the Prime Minister of the outgoing government, had stepped down, but a new government not yet formed. The new coalition government, led by the Five Star Movement and the League (formerly 'Lega Nord') and headed by Prime Minister Giuseppe Conte, was sworn in only on 31 May. It was during this interim period that the acting government, in line with Council Regulation 479/09, submitted its planned and actual government deficit and debt levels to the European Commission.



Paolo Gentiloni hands over to the new Prime Minister, Giuseppe Conte on 1 June 2018

The Commission, based on its spring forecast, analysed the numbers and found that Italy's debt-to-GDP ratio exceeded its debt reduction benchmarks for 2016 and 2017, and would do so again in 2018 and 2019. In line with Article 126(3) TFEU, this triggered the preparation of a report by the Commission, published on 23 May, to assess whether Italy was in breach of its obligations under the Stability and Growth Pact. This was the fourth year in a row that the Commission prepared such a report, which constitutes the first step in the Excessive Deficit Procedure (see Figure 3). As it had in 2015 and 2016, the Commission found ex-post compliance with the debt criterion and decided not to open an Excessive Deficit Procedure.

Also on 23 May, the Commission published its assessment of the Stability Programme Italy's caretaker government had submitted earlier that month. However, it was already highly likely at the time that the new government would be led by the Five Star Movement and the Lega, who had campaigned on a promise to massively increase government spending. Necessarily relying on a trend scenario that assumed unchanged legislation, the Stability Programme – and hence the Commission's assessment of it – were bound to become irrelevant the moment the new government took office.

FIRST ROUND: THE COUNTRY SPECIFIC RECOMMENDATIONS OF JULY 2018

The Commission, in its November 2017 Opinion on Italy's 2018 Draft Budgetary Plan, had requested a "fiscal structural effort of at least 0.3% of GDP". This was equivalent to a nominal rate of growth of net primary government expenditure not exceeding 0.5 per cent of GDP. By July 2018, Italian finance minister Giovanni Tria told a parliamentary hearing in Rome that "[t]he government doesn't have the intention of adopting corrective measures for this year."¹²⁸ The minister's addition that Italy was ready to "impose a veto on other EU plans" to get the Commission and the Council to agree to raising its deficit targets suggests that the government expected, from the beginning, that its plans would meet with strong resistance in Brussels.

Brussels responded swiftly, in the form of Commission's Country Specific Recommendations, adopted by the Council (i.e., the Eurogroup) on 13 July 2018. The terms had become stricter compared to the Opinion cited above. The Recommendation set a fiscal structural adjustment target for 2019 of 0.6 per cent of GDP, and a growth target for net primary government expenditure of below 0.1 per cent of GDP. In addition, the Council recommended various structural reform measures, ranging from streamlining procedural rules in the legal system to further reducing the stock of non-performing loans in the banking sector.

THE ROAD TO ITALY'S 2019 DRAFT BUDGETARY PLAN

The last member state to openly challenge the Eurogroup was Greece. Then, the most adversarial actor within the Greek government was arguably the finance minister, Yanis Varoufakis. With Italy, the situation was different. The main centres of power in Italy's government were the two Deputy Prime Ministers Luigi Di Maio, leader of the Five Star Movement, and Matteo Salvini, leader of the Northern League. In December, when both sides entered negotiations, Prime Minister Giuseppe Conte entered the fray and played an important role in de-escalating the conflict.¹²⁹ Following the rejection by the President of their preferred candidate for finance minister, Paolo Savona, an outspoken critic of the euro, Di Maio and Salvini agreed to appoint Giovanni Tria as finance minister. Tria, who is without party affiliation, reportedly "cut a modest and unassuming figure when attending regular meetings of EU finance ministers."¹³⁰ This does not mean that the Eurogroup did not play a role in the current conflict – it would still take the final decision at every step of the Excessive Deficit Procedure (see Figure 3). The shots, however, were called by Salvini and Di Maio.

This dynamic could be observed in late September and early October 2018. For several weeks, finance minister Tria had publicly insisted that the deficit of the new budget would not exceed 1.6 per cent

of GDP. On 28 September, however, Salvini and Di Maio prevailed and their parliamentary majority voted through a budget that implied a budget deficit of 2.4 per cent of GDP.¹³¹ The Eurogroup met only three days later, on 1 October. The statement of Eurogroup President Mário Centeno acknowledged the development but noted that "[t]oday was not the moment for an in-depth discussion". Nevertheless, the two senior representatives of the Commission, Commissioner Pierre Moscovici and Vice-President Valdis Dombrovskis, both present at the Eurogroup meeting, said that Italy's new 2.4 per cent target was a "very significant deviation" from Italy's commitments under the Stability and Growth Pact.¹³² A week later, Salvini escalated the rhetoric, telling an audience in Rome, "[w]e are against the enemies of Europe – Juncker and Moscovici – shut away in the Brussels bunker."¹³³

THE CONFLICT ESCALATES: COMMISSION SENDS THE DRAFT BUDGETARY PLAN BACK TO ROME

After weeks of tough talk, Italy's submission of its Draft Budgetary Plan (DBP) for 2019 to the European Commission and the Eurogroup on 16 October carried the conflict between Rome and Brussels to the next level. The Commission, using a disciplinary tool introduced in the 'two pack' legislation, formally rejected the Italian DBP – an unprecedented development.

Following the legal procedures specified in Article 7(2) of Regulation (EU) 473/2013, the Commission, based on its assessment of the Italian DBP as an "exceptional case" of "serious non-compliance with the budgetary policy obligations laid down in the SGP" and after consultation with the concerned member state,¹³⁴ issued an Opinion on the Italian DBP on 23 October. Based on a detailed exposition of its objections, it rejected the draft budget and requested an amended DBP in line with the European fiscal rules within three weeks.

In a nutshell, the Commission identified a violation of rules in three main respects: First, it bemoaned the deviation from the fiscal targets outlined in the Country-Specific Recommendations the Council had issued in July 2018. Two numbers are particularly relevant, the **nominal rate of growth of net primary government expenditure** and the **fiscal structural adjustment**. While the CSRs recommend a maximum increase in the net primary government expenditure of 0.1%, the DBP instead foresees an increase of 2.7%. In addition, contrary to the projected fiscal structural reduction of the deficit by 0.6% of GDP for 2019, the budgetary plan outlines a structural increase of the deficit by 0.8% of GDP. Second, in light of these expansionary measures, the Commission identified **non-compliance with the debt reduction benchmark**, which – if a country exceeds the legal limit of 60% of GDP in overall government debt – requires sufficient progress towards compliance, i.e. one twentieth of the gap between actual debt and the of the 60% debt level threshold. A third concern refers to the **missing endorsement** of the DBP by the independent national **Parliamentary Budgetary Office**, as required according to Article 4(4) of Regulation (EU) 473/2013.¹³⁵

Commission Vice-President Valdis Dombrovskis justified the rejection as necessary to ensure the spirit of trust and cooperation in the euro area, which was “underpinned by rules that are the same for everybody.”¹³⁶ The reaction of the Italian government followed promptly. Deputy Prime Minister Matteo Salvini denounced the decision of the Commission as an ‘attack against the Italian people’ and concluded that since “all the budgets that have passed through Brussels in recent years have made the debt rise by 300 billion euros”, the rejection of the DBP seems “to be an attack based on prejudice.”¹³⁷

POLITICS RULES: THE DISCRETIONARY NATURE OF THE ‘RULES-BASED’ FISCAL FRAMEWORK

Beneath the combative rhetoric, these statements do refer to something real – the deeply **political nature** of the European fiscal governance framework. The Italian government’s argument that the Commission is prejudiced against Italy



Taken together, the European Commission, the President of the Eurogroup, and the European Stability Mechanism represent the euro area’s executive.

is not easily disproved. The rules of the Stability and Growth Pact are not applied mechanically or automatically – decisions over compliance or non-compliance are genuinely political.

Indeed, the Juncker Commission opted for greater flexibility in the application of those rules precisely to counter criticism that they left too little leeway “to assess the soundness of public finances in the light of country-specific circumstances”,¹³⁸ in an attempt to end the post-crisis era of austerity. The Commission communication from January 2015 reflected Jean-Claude Juncker’s redefinition of the new Commission as a “highly political” actor and not a mere “technical committee made up of civil servants who implement the instructions of another institution”.¹³⁹

In addition to this open re-politicization of the European Semester, politics also enters through the back door, facilitated by the sheer **complexity of the European fiscal framework**. Methodological challenges in the calculation of various fiscal indicators, as well as inconsistencies between the Stability and Growth Pact and the intergovernmental Fiscal Compact tend to reduce **transparency** and **accountability** in the application of the rules. This has provoked serious criticism of the current fiscal governance framework even from within technocratic circles. Of particular concern among policy experts is the “esoteric, highly technical, and highly mathematical methodology at the basis of the rules themselves”.¹⁴⁰ A specific criticism targets the calculation of the (unobservable) ‘output gap’, which is an important parameter in the determination of the structural balance – a core measure of the fiscal stance of EU member states.¹⁴¹ In light of the importance of the structural balance for policy discretion in one of the most sensitive areas of national sovereignty – fiscal policy – it is striking that Niels Thygesen, the chairman of the European Fiscal Board, describes the structural balance as “unobservable and usually not in a government’s control.”¹⁴²

Model complexity, methodological opacity and flexibility in rule interpretation weaken the **credibility**

of European fiscal rules and raise doubts about the **effectiveness** of the entire fiscal framework. The Italian government capitalises on these well-known problems. Battling European fiscal regulations has become a core element of Salvini’s platform: “Italians will decide from now on. Not Berlin, not Paris, not Brussels.”¹⁴³

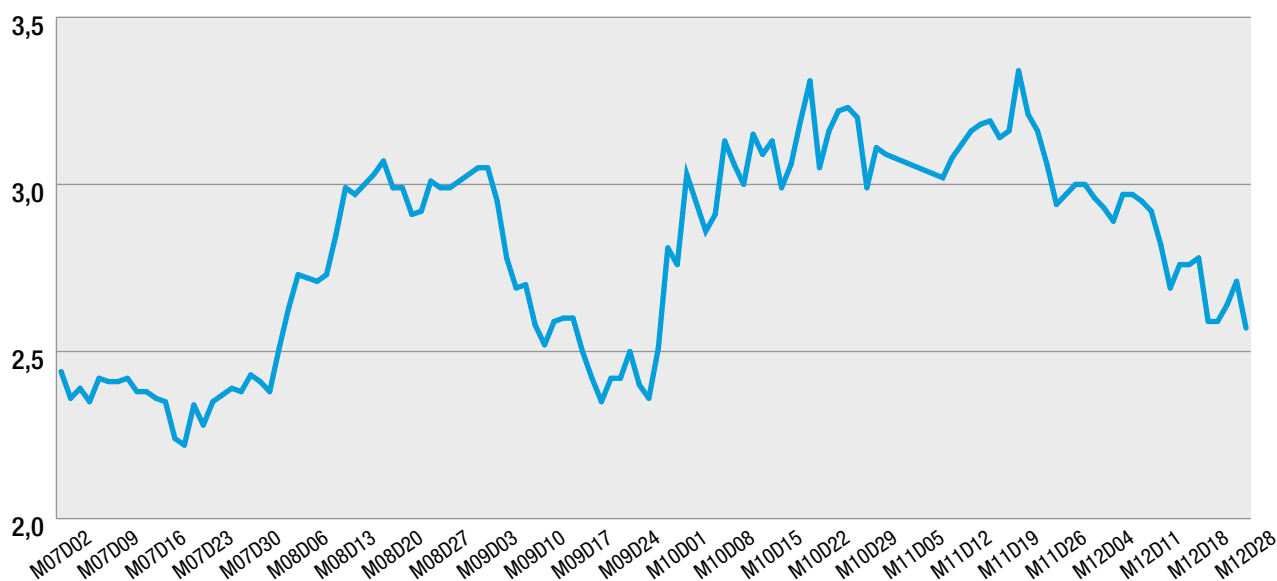
YET ANOTHER ACTOR IN THE GAME: THE ROLE OF MARKET DISCIPLINE

Matteo Salvini has mocked the Commission’s requests for revisions of the Italian draft budgetary plan as empty threats – “we open the little letters from Brussels, we read them, we respond to them [...] but we are not changing a comma of the budget.”¹⁴⁴ Meanwhile, however, a potentially much more influential ‘actor’ has asserted itself: the bond market.

The power of financial markets has always been the second pillar of the Maastricht model of the European monetary union. Uncertainty and doubts among central bank experts about the efficacy of financial markets to exert enough discipline to “iron out the differences in fiscal behaviour between member states”¹⁴⁵ had contributed to the initial inclusion of the current Article 126 of the Treaty on the Functioning of the European Union (TFEU) in the Maastricht treaty and the subsequent introduction of the Stability and Growth Pact in 1997.¹⁴⁶

The idea that markets could act as early ‘fire alarms’ which react to a deterioration of fiscal conditions with an incremental rise in spreads has indeed been largely ineffective. If anything, markets have shown clear signs of overreaction and herd behaviour during the euro crisis that put the existence of the euro area into question. Ironically, it seems that at this juncture, the markets appear to such a disciplinary role, reinforcing stance of the Commission and the Eurogroup in their budgetary controversy with the Italian government.

Figure 3: Spread of Italian 10-year government bond yield over German bond yield, percentage points, 2 July – 28 December 2018



Source: Eurostat, EMU convergence criterion series - daily data.

The above chart displays the development of the spread for ten-year Italian government bonds over the equivalent German Bund since early 2018. The chart shows that the swearing in of the new government on 31 May 2018 led to an abrupt change in market sentiment and to a doubling of the spread to 240 basis points. The spread rose beyond 300 basis points when, on 27 September 2018, the new government announced its plans to increase the public deficit to 2.4 per cent of GDP in 2019. It reached a high point of 334 basis points on 20 November, two weeks before Giuseppe Conte gave the first public indication of his government's willingness to climb down somewhat from 2.4 per cent, thus paving the way for the 2.04 per cent agreement with the Commission in mid-December.

While the government insisted that the financial markets will not change its course, it has begun to express concern. Finance minister Giovanni Tria said that a spread around 320 basis points would not be sustainable over the long run, in particular because of the negative feedback effects on the Italian banking system.¹⁴⁷ And even Matteo Salvini, who was reported in late September to “eat the spread for breakfast”,¹⁴⁸ subsequently said he considered 400 basis points as a “limit”.¹⁴⁹

“SLEEPWALKING INTO INSTABILITY”: THE COMMISSION PROPOSES AN EXCESSIVE DEFICIT PROCEDURE

Though the tense market situation works against it, the Italian government maintained its confrontational political strategy throughout November. A few weeks after the Commission's rejection of Italy's Draft Budgetary Plan, during its regular meeting on 5 November, the Eurogroup demonstratively sided with the Commission. In their ‘terms of reference on the draft budgetary plan of Italy’, published after the meeting, all other Eurogroup members unanimously expressed their agreement “with the Commission assessment” and invited Italy to engage in an open dialogue with the Commission in the “preparation of a revised budgetary plan which is in line with the SGP.”¹⁵⁰

The Eurogroup statement did little to change the Italian position. Although the Italian government, in line with Article 7(2) of Regulation (EU) 473/2013, resubmitted a revised DBP on 13 November, the Commission still considered the plan non-compliant with European fiscal rules. Following the Eurogroup meeting on 19 November, Eurogroup President Mário Centeno said that euro area finance ministers “are certainly following all developments very closely” and are waiting for the Commission’s next steps.¹⁵¹

The reaction of the Commission followed only a few days later. On 21 November, it published a draft EU Opinion on the 2019 Draft Budgetary Plan for Italy – a necessary first step towards the launch of an Excessive Deficit Procedure under the corrective arm of the SGP (the third step in Figure 4 above).¹⁵² Commission Vice-President Valdis Dombrovskis justified this step towards escalation by warning that, “[w]ith what the Italian government has put on the table, we see a risk of the country sleepwalking into instability.”¹⁵³ The Eurogroup endorsed the Commission’s recommendation at its meeting on 3 December.¹⁵⁴

EXCESSIVE DEFICIT PROCEDURE AVOIDED, RULES FUDGED: THE DECEMBER 2018 COMPROMISE

At this point, Italy’s Prime Minister, Giuseppe Conte, who had hitherto played no visible role in the conflict between Rome and Brussels, stepped to the fore to signal his government’s willingness to amend its budget plan. On 4 December, the day after the Eurogroup’s endorsement of the Commission’s recommendation to launch an Excessive Deficit Procedure, Conte told an Italian newspaper that while he was willing “to recover some funds, tweak the final figure, change a few things”, this “doesn’t mean that I am backtracking”.¹⁵⁵ Both the content of this statement and the fact that it was Conte who made it – not Salvini or Di Maio – speak volumes of the politicised character of the seemingly technical procedures of the Stability and Growth Pact.

One week later, the Italian government seized on a gift handed to it by French President Emmanuel Macron, who had decided to make concessions

to protesters in France (the *‘gilets jaunes’*). Worth €10 billion, these concessions were expected to push France’s budget deficit for 2019 above three per cent of GDP, in clear violation of the SGP deficit rule. Immediately, Deputy Prime Minister Di Maio called on the European Commission to “also open a case against France, if the rules apply to all”.¹⁵⁶ This prompted a response from Commissioner Pierre Moscovici the following day, who dismissed Di Maio’s comparison of the two countries as “tempting but wrong”, saying that “[t]he European Commission has been monitoring the Italian debt for several years; we have never done that for France”.¹⁵⁷



Mr Giovanni TRIA, Italian Minister for Economic Affairs and Finance.

On 12 December – the same day Moscovici rebuked Di Maio – Prime Minister Conte, in a meeting with Jean-Claude Juncker in Brussels, announced that he would seek a reduction of his government's budget deficit from the previous target of 2.4 per cent to 2.04 per cent.¹⁵⁸ This goal would be achieved by delaying some of the spending measures his government had promised its voters, including a minimum basic income programme for the unemployed and the unwinding of an earlier pension reform. News of the meeting and Conte's concession coincided with the spread on 10-year Italian government bonds falling by 30 basis points in the space of two days (see Figure 4 above). The Commission, however, was not yet satisfied. Commissioner Moscovici called Prime Minister Conte's offer a "a step in the right direction" but insisted that "we are not there yet, there are still steps to be taken, perhaps on both sides".¹⁵⁹

On 16 December, Deputy Prime Ministers Salvini and Di Maio, in a meeting with Conte, agreed to the budget deficit reduction from 2.4 to 2.04 per cent that Conte had offered to Juncker.¹⁶⁰ Two days later, the Commission accepted this proposal. It was essentially the same proposal that Pierre Moscovici had rejected as insufficient only one week earlier, although the Italian government had made minor concessions by committing to increasing value added tax in case the budget situation should deteriorate, and to raise more money from privatisations.

CONCLUSION

The case of the conflict over the newly elected Italian government's planned budget showcases the politicised nature of the seemingly technical European Semester. Large Member States – France (2004), Germany (2004), Spain (2016), Italy – can violate the rules of the Stability and Growth Pact with impunity. By using their political weight to exert pressure on the Commission and to form coalitions in the Ecofin Council and the Eurogroup, these Member States regularly avoid Excessive Deficit Procedures being launched against them. In the case at hand, it is difficult not to conclude that the agreement reflected political rather than technical considerations, namely Luigi Di Maio's threat to re-escalate the conflict by insisting on disciplinary measures against France – a scenario that France, Germany, and the Commission were all keen to avoid. Valdis Dombrovskis, Commission Vice-President responsible for the euro, did not try to hide that the agreement was essentially a fudge: "Let's be clear – the solution is not ideal. But it avoids opening the excessive deficit procedure at this stage. And it corrects the situation of serious non-compliance with the stability and growth pact."¹⁶¹

Discretionary, ad hoc application of the rules is bound to favour the largest and most powerful Member States. This was evident when France and Germany violated the 3 per cent deficit rule in 2003 with impunity¹⁶², and it is evident again today in the case of Italy (and again France). Meanwhile, smaller Member States are subject to sanctions simply because their finance ministers lack the political weight to exert pressure on their colleagues in the Eurogroup and the Council. If the rules are found wanting, the Commission, the Council, and Eurogroup should launch an open, public debate that would, potentially, lead Member States to change the rules.



Mário Centeno became President of the Eurogroup in January 2018

TOWARDS STRONGER POLITICAL ACCOUNTABILITY

The Eurogroup's lack of political accountability is difficult to fix. Improvements are possible within existing institutional arrangements, but the democratic deficit of euro area governance lies with the mismatch between national competences on economic and fiscal policy, and the need to coordinate such policies at euro area level, and therefore runs deeper than just the Eurogroup. This poses a challenge for a report on the Eurogroup: Recommendations on the Eurogroup alone will not fix the problem, while recommendations that would fix the problem go beyond the scope of this report and the remit of Transparency International. We therefore make a series of incremental reform recommendations, while also gathering more radical reform proposals made by others, in the interest of advancing the debate. We will refer to these two scenarios as 'incrementalism' and 'transformation':

'Incrementalism' outlines possibilities for incremental improvements in the areas of transparency and parliamentary involvement at the national and European level. It does not, however, address the underlying fault lines in the institutional architecture of the euro area that ultimately limit the capacity of the Eurogroup to govern democratically.

'Transformation' outlines the institutional changes that would be required for the Eurogroup to act as an executive body that is democratically accountable at the euro area level. This scenario includes a new fiscal architecture with a significant euro area budget, administered by a euro area finance minister who reports to the European Parliament or a new parliamentary assembly for the euro area.

INCREMENTALISM

The first scenario encompasses a series of incremental reforms of mainly procedural character that leave the overall institutional architecture of the euro area unchanged. The focus is on a more direct accountability mechanism and stronger parliamentary participation rights. The main argument in favour of an incremental approach is political feasibility at a time of euro-scepticism among citizens and hardened conflict lines between Member States. At best, gradualism can help bolster cooperation and develop the European public sphere that is a precondition for a full-fledged political union. The flip side of mere institutional fine-tuning is that it does not fix the underlying obstacles to a fully politically accountable Eurogroup. With that caveat in mind, we discuss two specific areas for incremental reform:

1. *Decreasing conflicts of interests*: establishment of a full-time Eurogroup president.
2. *Strengthening responsiveness*: stronger participation rights of and regular hearings before the European Parliament, national parliaments, and interparliamentary conferences.

A full-time Eurogroup President: Eliminating conflicts of interest and assigning responsibility

Unlike the Ecofin Council, whose presidency rotates every six months, the Eurogroup already elects a permanent President. This presidency has evolved over the years. Jean-Claude Juncker became the first Eurogroup President to be invited to the European Parliament on a regular, bi-annual basis. The *Treaty of Lisbon* formalised the election, by the

finance ministers, of a Eurogroup President for a (renewable) two and a half-year term. The *Working Methods of the Eurogroup* specify that candidates are elected by simple majority. The position of the President was further strengthened in 2011, when the Euro Summit established the position of a Brussels-based President of the Eurogroup Working Group. The current President of the Eurogroup, Mário Centeno, has introduced the position of a full-time, Brussels-based spokesperson in order to improve the Eurogroup's communication, both internally and externally.

Unlike the Presidency of the EWG, the Presidency of the Eurogroup is not a full-time position. Indeed, the *Working Methods of the Eurogroup* specify that candidates *must* “hold the position of national minister of finance”. While the election of the President of the Eurogroup from among its members has helped to maintain the Eurogroup's informality, we consider this advantage to be outweighed by the costs of this arrangement. A full-time Eurogroup President would be free of conflicts of interest, while more clearly assigning responsibility for Eurogroup decisions. Both would strengthen accountability at the European level, notably towards the European Parliament.

The creation of a full-time Eurogroup presidency has long been discussed. In May 2013, Francois Hollande and Angela Merkel presented a joint paper that called for “a full-time President for the Eurogroup of finance ministers relying on wider resources”.¹⁶³

The position of President of the Eurogroup could be filled by the Commissioner for Economic and Financial Affairs, thereby creating a hybrid position reporting to both the Commission and to the Council, akin to the High Representative of the Union for Foreign Affairs and Security Policy, currently held by Federica Mogherini.

Under the current arrangement conflicts of interest arise naturally from the fact that the President of the Eurogroup is also and at the same time the finance minister of his or her national government. The main task of the President is to forge consensus among finance ministers, since without consensus the Eurogroup cannot decide. Clearly, a tension exists between appearing as the defender of Dutch interests at home and an arbiter

of common interests in Brussels. For instance, when Jeroen Dijsselbloem described the bail-in of large depositors in Cyprus as a model for bank resolution elsewhere, that statement played well with a home audience but caused panic elsewhere. He was immediately rebuked by two senior ECB policymakers. Domestic political considerations can cause the President of the Eurogroup to do damage to collective interests.¹⁶⁴ The primacy of national politics and of the tasks as national finance minister also reduce the time, energy and resources the President can dedicate to the Eurogroup. While the President plays an important role in the actual meetings of ministers, the preparatory work is largely done by the EFC/EWG/EPC Secretariat and the EWG President. Besides his spokesperson, President Mário Centeno's dedicated Eurogroup team comprises only one full-time staff. While that staff performs a Herculean task in running the Eurogroup, the office of the Eurogroup President being starved of resources is hardly in the collective interest of the Member States.

A full-time Eurogroup president would also facilitate the establishment of a direct line of accountability between the Eurogroup and the European Parliament. The fact that under current conditions Eurogroup Presidents are primarily accountable to their own national parliaments imposes limits on their responsibility towards the European Parliament. Whereas currently the President's role is to forge consensus among ministers, a full-time presidency would allow for a clearer assignment of responsibility for decisions of the Eurogroup – “political responsibility becomes embodied.”¹⁶⁵

The power of a parliament is directly linked to its authority in budgetary matters. A full-time Eurogroup President will not resolve this underlying weakness of the European Parliament. As long as the decisions of the Eurogroup are ultimately decisions that affect national budgets only, the European Parliament cannot bequeath democratic legitimacy on these decisions. What it can do, however, is serve as a platform for a European public discourse about these decisions – even if some stakeholders will always be left on the losing end of a debate, a public forum to air disagreements and explore compromises will increase the legitimacy of decisions, even if the decisions are unchanged. The right to question and even remove the President of the Eurogroup

(under conditions that would need to be specified) could elevate the visibility of euro area governance. Giving the parliament legal powers will increase the robustness and visibility of the Eurogroup's accountability, and the of the parliamentarians involved in this process. More robust hearings in the European Parliament can complement national parliamentary debates, which often – and necessarily – fail to account for the legitimate interests and concerns of citizens in other countries. Only in the European Parliament are all citizens represented.

The Eurogroup's accountability would mainly be organised via the Parliament's Committee on Economic and Monetary Affairs (ECON Committee). If, as has been consistently pushed for by a succession of France and many more, the "EU finance minister" were to also manage a euro area budget – whether this be a rainy-day fund, investment reinsurance, or any other form of European public good – this would entail more direct accountability to the European Parliament.

Strengthening responsiveness: expansion of parliamentary participation rights

The Eurogroup is at the core of an increasingly complex European economic governance framework. The involvement of both intergovernmental and supranational actors in European macroeconomic coordination blurs responsibility, contributes to its perceived opaqueness and obscures accountability. The Five Presidents' Report of June 2015, a common reform proposal of all relevant economic policy actors, itself acknowledges the difficulties to identify critical decision-making moments and pleads for "greater transparency about who decides what and when."¹⁶⁶ Greater procedural transparency in European economic policy coordination is thus an important feature towards a better accountability framework based on stronger parliamentary involvement.

The challenge, however, is not an easy one. The institutional complexity of the current economic governance system is a symptom of the 'sui generis' character of European monetary union

as the only "currency without a state".¹⁶⁷ Normally, every central bank has a political counterpart in charge of the other relevant macroeconomic levers, fiscal policy and structural reforms. In the euro area, the ECB has 19 fiscal counterparts, while the Eurogroup attempts to bridge this lack of coordination by enforcing the euro's budget and debt rules. The delegation of authority over monetary policy to the supranational ECB in combination with national responsibility for sound economic and fiscal policies requires a multi-level approach to the management of the euro. This diagnosis also entails important implications for the design of a future accountability framework.

A simple solution, based on stronger monitoring, scrutiny and veto rights for the European Parliament, would not suffice to narrow the existing accountability gap. The two-level economic governance structure rather has to be matched with a two-level accountability framework, involving both the European Parliament *and* the national parliaments of the euro area Member States.

Against this background, a stronger role of parliaments in the European Semester would be an important step towards a better accountability regime. Introduced in 2011, the European Semester is an annual cycle of fiscal, structural and macroeconomic coordination which streamlines multilateral economic surveillance and coordination based on the 'six-pack' and the 'two-pack' legislations (see Box 3 and 2 above). Since the European Semester process epitomizes the dispersion of supranational and national power



Former Eurogroup President Jeroen Dijsselbloem answers questions in the European Parliament

in European economic governance, future reform proposals need to focus on stronger parliamentary involvement at key decision-making moments along the cycle.

Although the reports, recommendations and warnings produced in the context of the preventive and corrective arms of the Stability and Growth Pact may have a big impact on core areas of national state powers,¹⁶⁸ parliaments have little resources to hold the various executive actors accountable. In the case of (non-binding) country-specific recommendations (CSRs), which are proposed by the Commission, amended by the Council, and finally endorsed by the heads of state and government in the European Council, the limited involvement of national parliaments further reduces the (already low) rate of implementation.

Strengthening the role of the European Parliament in the European Semester

This report includes proposals to strengthen accountability in the European Semester, although the role of the Eurogroup in this area is limited (see Box 1 above). The goal is to strengthen parliamentary control on those parts of the Semester with the most direct impact on citizens,

namely the coordination of fiscal policy under the Stability and Growth Pact via draft budgets and the possibility excessive deficit procedures.

The European Parliament currently participates in the European Semester through a series of ‘economic dialogues’. According to Regulation 473(2013) – part of the ‘Two-pack’ – the purpose of these dialogues is to “enhance the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability”.¹⁶⁹ These dialogues do not, however, confer real power to the European Parliament.¹⁷⁰

While it has been the rule that invitations of the European Parliament are accepted, there is no obligation to appear before the parliament. As a crucial element of a broader reform agenda, regular public hearings in the competent committees of the European Parliament should thus be made obligatory. This would make it difficult for executive actors to decline an invitation, as happened in April 2017, when the then-Eurogroup President Jeroen Dijsselbloem refused to follow the Parliament’s call to answer questions in a hearing on Greece. In that case, the President of the EP, Antonio Tajani, could do little more than to tweet his displeasure: “Unanimous condemnation by the European



Parliament against Jeroen Dijsselbloem for umpteenth refusal to answer questions on sacrifices made by our citizens.”¹⁷¹ Changing the current dialogical framework from *voluntary* to *obligatory* interaction would be an important insurance device for the European Parliament in circumstances where its opinions and judgements differ from those of other (executive) institutions.¹⁷²

A further building block of reform should concern the veto capacities of the European Parliament in the European Semester. While the current scope of parliamentary involvement within the European Semester is narrowly confined to informational and consultation rights, the power to request amendments to relevant Commission draft reports would change the role of the European Parliament from a *passive recipient* of information to an *active political participant*, with positive impulses for the quality of parliamentary accountability. Big-ticket decisions such as the country-specific recommendations and the EU opinions on draft budgetary plans should be co-decided between the Council (Eurogroup) and the European Parliament. By boosting the visibility and legitimacy of these decisions, this may also increase the likelihood that national governments will stick to what was agreed.

Strengthening the role of national parliaments in the European Semester

Empowering the European Parliament needs to go hand in hand with a stronger role for national parliaments in the European Semester. Though the ‘power of the purse’ is formally still with national parliaments, Member States have agreed to give up more and more of their budgetary sovereignty by instituting increasingly constraining European fiscal rules.

Although recent developments indicate a creeping expansion of the role of national parliaments in the European Semester,¹⁷³ most observers agree that these parliamentary initiatives “are unlikely substantially to influence EMU policy-making processes”.¹⁷⁴ Reform efforts thus need to concentrate on stronger involvement rights of national parliaments in European debates and decision-making processes.

A possible path for reform concerns the expansion of interparliamentary conferences between the ECON Committee of the European Parliament and the competent committees of the national parliaments.¹⁷⁵ Closer cooperation between the two parliamentary levels could be beneficial in several respects. A direct and immediate effect would be a better flow and exchange of information between the participating parliaments which would reduce information asymmetries between the executive and the legislative branches in the existing multi-level governance regime. A less obvious and indirect, though probably even more critical result of stronger interparliamentary collaboration could be a better exchange between the discourses at national and European level. This might form the basis to overcome narrow national interests still prevalent in the euro area, foster a better mutual understanding of common problems and challenges, increase awareness of the legitimate concerns and preferences of other euro area members and create the preconditions for more transformative reforms in the governance of the EMU.

Every national finance minister answering to national parliaments can at times become an echo chamber reinforcing the need to follow what is viewed as the ‘national interest’ in the governance of the euro. Breaking up this dynamic to bring together the various interests represented holds the promise of finding common approaches that befit the interdependent nature of the economic and monetary union.

TRANSFORMATION

This section gathers existing proposals for more fundamental reforms of the euro area's institutional setup, which go beyond the scope of the Eurogroup and the remit of Transparency International. We recall these more ambitious ideas in the interest of advancing the debate on Eurozone reform, with a focus on its democratic accountability and legitimacy.

A more ambitious vision of euro area governance is based on the principle of democratic sovereignty at the European level. The requirement for this would be a recent version of an old idea, the creation of a 'political union', which has enjoyed prominent support throughout European history. As one of the founding fathers of the euro, Helmut Kohl cautioned in a speech in the Bundestag only a few weeks before the signing of the Maastricht Treaty, "the idea of sustaining an economic and monetary union over time without political union is a fallacy."

Indeed, a more effective integration of fiscal and economic policy needs to go beyond the informal coordination backed up by fines if the rules are breached. But to avoid further widening the democratic deficit of those decisions, a political union is required to integrate democratic control to a sufficient extent. Creating a genuine political union, however, is not an easy task. Just take the case of the US monetary union for comparison. It took over a century, a civil war and several economic and financial crises before the federal level gained sizeable political and fiscal competences.¹⁷⁶ Bearing this in mind, chances for an immediate realization of the following suggestions are low, though they are inevitable to restore democratic legitimacy in EMU. It could, however, well be that incremental adjustments as suggested in the first scenario may provide the impetus for more ambitious reforms in the long term.

The list of proposals for a future democratization of the euro area is long, including detailed reform plans from leading public figures such as Jürgen Habermas and Thomas Piketty.¹⁷⁷ The main purpose is thus not to add yet another proposal,

but to provide a synthesised and stylised overview of the necessary building blocks for accountable and democratic European governance institutions.

A crucial element of institutional change in the Eurozone is the consolidation of the euro area's executive, via a full-time President of the Eurogroup (for a brief discussion, see the previous section on 'A full-time Eurogroup President'), as well as its accountability regime, which is currently decentralised. The reliance on the independent operation of 19 separate, national accountability chains did not stand the test of the euro crisis and an effective institutional fix would need to go beyond the tentative measures proposed in the first scenario. Disenfranchising national parliaments will not be the solution either. What is needed is an EU-level parliamentary scrutiny of decisions and recommendations regarding national budgets and economic policy, to hold both parts of the euro area's executive – the Commission and the Eurogroup – collectively accountable.¹⁷⁸ This would also be a more sensible arrangement for the ESM – requiring national parliamentary involvement for the green-lighting of each bailout, while relying on the European Parliament to ensure that reform progress and the disbursement of (already approved) funds is exercised correctly. For the European Parliament to rise to the challenge and devote its limited attention, institutional resources, and the most qualified members to the euro's governance would become possible once it is equipped with genuine veto or co-decision powers in the area of European economic governance, enabling it to act as an active counterpart to the Eurogroup and to counterbalance the current tendencies towards "post-democratic executive federalism."¹⁷⁹

The key is to organise accountability at the level at which decisions are taken. Various forms have been proposed, empowering the European Parliament as such or alternatively via a subcommittee with voting rights for euro area members only; creating a separate euro area parliament, or even a hybrid composed of Members of the European Parliament as well as national MPs, building on the so-called Article 13-conferences foreseen in that article of the ‘fiscal compact’ treaty (TSCG). Another proposal for such a hybrid parliament was submitted by a team around economist Thomas Piketty as the “Treaty on the Democratization of the Economic and Social Government of the European Union”.

Combined with a euro area budget and a more clearly defined euro area executive, a newly

empowered European Parliament could provide an institutional fix for the EMU’s accountability gap. An important caveat remains, however. Jean Monnet’s dictum that although nothing lasts without institutions, “nothing is possible without men” reminds us that institutional engineering, no matter how ingenious, still requires a public will to establish powerful majoritarian institutions above the nation state. For the ‘rule takers’ – the citizens of the 19 EMU countries – believing in the legitimacy of majority decisions on fiscal and economic policy issues requires a belief in collective identity – Max Weber’s *Gemeinsamkeitsglaube* – and trust in the benevolence of fellow European citizens.¹⁸⁰ Without this trust, the most sophisticated accountability architecture will exhaust itself in the construction of Potemkin villages.



ENDNOTES

- 1 Berschens, R. (2017): „Die Euro-Gruppe funktioniert ja schon wie eine Art Regierung.“ Interview mit Klaus Regling. Handelsblatt, July 12.
- 2 In accordance with Art. 136(2) TFEU
- 3 Presidency Conclusions (1997): Luxembourg European Council, December 12-13.
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- 6 Puetter, U. (2006) The Eurogroup: How a Secretive Circle of Finance Ministers Shape European Economic Governance, Manchester: Manchester University Press, 55-62.
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- 9 Since the amendment of the statutes on the European Economic and Financial Committee in June 2003, it may meet in two different configurations, with and without national central banks (2003/476/EC). https://europa.eu/efc/welcome-economic-and-financial-committee-efc-website_en [last accessed: August 6, 2018]
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- 21 Strauss-Kahn, D. (1997) France’s wish for more co-operation across the euro zone would not limit the ECB’s independence. *Financial Times*, November 27.
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- 23 Puetter, U. (2004), 856.
- 24 Puetter, U. (2006), 67.
- 25 Chang, M. (2009) Monetary Integration in the European Union, Basingstoke: Palgrave Macmillan, 80.
- 26 The Lisbon Treaty foresees the position of a permanent and full-time President for the European Council in Article 15 of the Treaty on the European Union (TEU). With the entry into force of the Lisbon Treaty in December 2009, Herman Van Rompuy became the first elected European Council President. He was replaced by Donald Tusk in December 2014. The Lisbon Treaty also regulates the establishment of a High Representative of the Union for Foreign Affairs and Security Policy in Article 18 and 27 TEU. The High Representative chairs the Foreign Affairs Council and is at the same time a member of the European Commission.

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- 31 Protocol 14, Lisbon Treaty.
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- 38 Ban/Seabrooke, TI report on the ESM, 16.
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- 41 Pringle v Ireland, paragraph 161.
- 42 Ban/Seabrooke, TI report on the ESM, 16.
- 43 Article 4.4 ESM Treaty.
- 44 Ban/Seabrooke, TI report on the ESM, 22.
- 45 Regulation (EU) No 1024/2013 (SSM Regulation), Article 20(3).
- 46 SSM Regulation, Article 20(4).
- 47 Regulation (EU) No 806/2014 (SRM Regulation), Article 45(4).
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