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European Commission

2015

Annual Activity Report

Economic and Financial Affairs

This Annual Activity Report covers the activities of the Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN) for 2015, a significant year for the DG and the European Commission. A major concern for DG ECFIN in 2015 was the situation in Greece. Progress with its reform programme remains good. However, the economic effects of the political uncertainty over the year made for a very challenging environment and dominated the Eurogroup and the economic discussions at EU level.

In 2015 we continued working to ensure full and proper use of the strengthened framework of **surveillance** and towards completing the architecture of the **Economic and Monetary Union**. Following the publication in 2015 of the "*Five Presidents' report*", the Commission adopted a Communication on steps towards completing Economic and Monetary Union that set out the priorities for the years ahead.

A major priority last year was work on the implementation of the **Investment Plan** for Europe, launched in 2014, in which DG ECFIN plays a pivotal role, in close partnership with the European Investment Bank (EIB). The rationale behind the Plan is that it should back projects that are of great strategic interest to Europe by absorbing investment risks that the private sector may be reluctant to take at the current economic juncture. The Investment Plan is already showing results as a significant number of the European Fund for Strategic Investments (EFSI) projects have already been approved by the EIB Group for a total investment value of about EUR 50 billion (as of January 2016).

The Annual Activity Report sets out, in part 1, key results and progress towards the achievement of general and specific objectives of the DG, and tries to give a flavour of the wide range of activities going on in the DG and what they can add to the creation of growth and jobs in the European Union as well as how they contribute to raising the economic welfare of the citizens in the European Union and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability.

Part 2 provides information on the management of resources allocated to the DG, and how we are organised internally.

The systems in place enabled the Director -General of DG ECFIN to sign his Annual Declaration of Assurance without reservations (Part 3).

It is hoped that the report offers a digestible view of the operations of the DG, and helps in understanding the different challenges the DG is facing.

For more information please see our website

http://ec.europa.eu/economy_finance/index_en.htm

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NB. Following Annexes are not applicable:

- Annex 6- Implementation through national or international public-sector bodies and bodies governed by private law with a public sector mission
- Annex 7 - EAMR of the Union Delegations
- Annex 8 - Decentralised agencies
- Annex 11 – Specific annexes related to "Assessment of the effectiveness of the internal control systems"

INTRODUCTION

The DG in brief

Our mission is to contribute to raising the economic welfare of the citizens in the European Union and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability.

In pursuing this mission, our core objectives are:

- *to ensure a smooth functioning of the EU's Economic and Monetary Union (EMU) through a strong economic governance framework;*
- *to promote sound macro-economic policies in the Member States (MS) to ensure balanced and sustainable growth and job creation, and to improve sustainability and quality of public finances, in the context of the Stability and Growth Pact, the Macroeconomic Imbalances Procedure (MIP), the Europe 2020 strategy and the European Semester and to undertake surveillance of MS' economies, on the basis of preventive and corrective tools enshrined in secondary legislation, to promote fiscal sustainability and the prevention/correction and/or of internal/external macroeconomic imbalances;*
- *to conduct macroeconomic adjustment programmes and in this context cooperate with the European Stability Mechanism (ESM). We also support efforts to safeguard financial stability by establishing and operating an effective system of macro-prudential supervision;*
- *to design and implement, in close cooperation with the European Investment Bank (EIB) Group and the European Bank for Reconstruction and Development (EBRD), EU investment programmes including the flagship "Investment Plan for Europe", to design financial assistance programmes and to undertake financial market operations and to manage the treasury and assets on behalf of other Commission services;*
- *to maintain close working relations with the EIB Group, the EBRD, the World Bank Group and other multilateral development banks, with a view to promoting EU priorities and common positions and ensuring appropriate coordination of the Commission's financial cooperation with these institutions. To maintain close working relations with the International Monetary Fund (IMF) and with the corresponding G7 and G20 groups to develop international strategies in the economic and financial area;*
- *to prepare the gradual enlargement of the euro area;*
- *to support economic prosperity, growth and stability not only within the EU but also at the international level by shaping global economic governance and EU international economic relations with a view to advancing EU interests and putting in place an efficient and robust policy framework conducive to a sustainable and balanced growth of the global economy, supported by an efficient and stable international monetary and financial system.*

Within the Commission, DG ECFIN plays the leading role in ensuring the Treaty obligations that are set out in Title VIII (Economic and Monetary Policy) of part three of the Treaty on the Functioning of the European Union (TFEU) are met. It also contributes to various aspects of External Action of the Union (part five of the TFEU).

With respect to DG ECFIN's activities, policy and operational objectives through the use of budget expenditures are either achieved through direct management and grants and purchases, or through indirect management with entrusted entities and financial instruments. Similarly, the financial management of assets is either directly performed by DG ECFIN or under its supervision when entrusted to another body. This is why DG

ECFIN enjoys a mix of direct assurance and third party assurance in its accountability chain. This organisation has so far proved to be smooth and reliable.

As the EU's system of economic policy coordination has developed to become more comprehensive and better integrated, we increasingly work in close partnership with other services of the Commission to promote the achievement of the Union's objectives in areas such as employment and social policy, environment, energy, industry and Small and Medium size Enterprises (SME) policy, research and development.

The MS are required to regard their economic policies as a matter of common concern and to coordinate them in the Council. They are also required to avoid excessive budget deficits. The economic crisis that began in 2008 led to the strengthening of existing rules in these regards as well as to the adoption of new rules to avoid the accumulation of macroeconomic imbalances. Efforts to reinforce economic policy coordination have focused on the Europe 2020 Strategy launched in 2010[1] and, more operationally, on the European Semester of economic policy coordination which was instigated in 2011. In terms of competence, these arrangements are hybrid: in particular some recommendations to the euro area and MS are enforceable under the provisions of secondary legislation, whilst others cannot be enforced.

We play an important role in preserving financial stability in the EU by providing financial assistance to euro area MS facing a severe deterioration of their borrowing conditions and to MS outside the euro area facing difficulties with their balance of payments. The former is currently provided by the ESM, governed by a specific treaty currently outside the EU framework but operating fully consistent with EU policies; the latter through the Balance of Payments (BoP) facility which is governed by an EU regulation.

We design and implement, in close cooperation with the EIB Group and the EBRD, EU investment programmes including the newly-launched flagship "Investment Plan for Europe". It also designs financial assistance programmes and undertakes financial market operations and manages the treasury and assets on behalf of other Commission services.

In addition, the Commission aims to promote the growth, stability, and resilience of the global economy and to strengthen the role of the EU as an actor, in particular by economic surveillance of EU enlargement countries and financial operations to support EU neighbourhood policy. We therefore maintain close working relations with the EIB Group, the EBRD, the World Bank (WB) Group and other multilateral development banks, with a view to promoting EU priorities and common positions and ensuring appropriate coordination of the Commission's financial cooperation with these institutions. DG ECFIN is responsible for maintaining close working relations with the IMF and with the corresponding G7 and G20 groups to develop international strategies in the economic and financial area, as well as to enhance the role of the Commission, in line with the TFEU, in international economic and financial institutions and fora.

As regards the contribution of the Commission and more particularly DG ECFIN to the overall co-ordination of economic and financial policies in the EU there is an important role for the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC), and the Eurogroup Working Group (EWG), as well as their subcommittees and working groups, in particular as regards administrative and general support. This is done on an ongoing basis and includes the preparation of reports and opinions for the EFC, the EPC, the EWG, the Council and the Eurogroup, as well as Ecofin and Eurogroup draft conclusions and statements. It also entails providing support and policy advice to the

[1] The Commission is in the midst of a reflection on the future of Europe 2020 at the time of writing this strategy: a decision on the way ahead is expected in mid-2016.

President of the Eurogroup, the EFC and EPC Presidents, and the Brussels-based permanent President of the EWG.

DG ECFIN has a complex network of stakeholders. Its management of programmes and financial operations on behalf of the Commission and its leading role in the definition and promotion of the economic objectives of the Union define its relations with other Directorates-General (DGs) in the Commission. The authorities of the EU MS are key stakeholders in ways which go considerably beyond the traditional and formal relationship between the Commission and MS in the Council. With our increasing role in the formulation and advocacy of economic policies at the national level, not only MS' authorities, but also national parliaments, social partners and other business, academic and civil society organisations are becoming increasingly significant stakeholders to the DG. And as the Commission pursues a renewed effort to promote the external dimension of the EMU, international partners in the IMF, G7, G20 and international development banks, as well as key non-EU national authorities assume greater importance as partners with a stake in our work.

As regards organisational developments, 2015 witnessed two important changes to the activities. On 1 January 2015 the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) was created, which took under its wings part of our previous activities on financial stability and the financial sector. On 1st July 2015 a new 'Structural Reform Support Service' was set up, which is specialised in assistance for MS in implementing growth-enhancing administrative and structural reforms. It draws on the expertise and know-how of the Task Force for Greece and the Support Group for Cyprus which until then had been part of DG ECFIN. As regards changes to the internal organisation and accountability chain, DG ECFIN was reorganised on 1st October 2015, with the Directorate for Policy, Strategy and Coordination reporting directly to the Director-General. Outside the reporting period, a further reorganisation took place on 1st March 2016.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG ECFIN to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

The executive summary has four subsections:

a) Policy highlights of the year (executive summary of section 1)

b) The three most relevant Key Performance Indicators (3 KPIs) for the illustration of policy highlights identified in the DGs 2015 Management Plan

c) Key conclusions on Management and Internal control (executive summary of section 2)

d) Information to the Commissioner

a) Policy highlights of the year (executive summary of section 1)

Our mission is to contribute to raising the economic welfare of citizens in the European Union and beyond by fostering competitive, employment-rich economies. To this end, the Directorate-General contributes to the development of policies that are geared towards smart, sustainable and inclusive economic growth while preserving macroeconomic and financial stability, inter alia, by: i) implementing necessary structural reforms; ii) achieving and maintaining sound public finances and an appropriate policy mix; and iii) promoting investment in productive and human capital. The processes aimed at a deeper and fairer EMU and at completing the EMU architecture are central in this endeavour.

A major priority last year was work on the implementation of the **Investment Plan** for Europe, launched in 2014, in which DG ECFIN plays a pivotal role, in close partnership with the EIB. The rationale behind the Plan is that it should back projects that are of great strategic interest to Europe by absorbing investment risks that the private sector may be reluctant to take at the current economic juncture. On 25th June 2015 the Council and Parliament adopted the relevant legislation, marking a major milestone in efforts to boost investment in the EU. The cornerstone of the Investment Plan is the EFSI which is helping to finance infrastructure and innovation projects as well as SMEs and Mid-Caps notably through the mobilisation of private capital. The Investment Plan is already showing results as a significant number of the European Fund for Strategic Investments (EFSI) projects have already been approved by the EIB Group for a total investment value of about EUR 50 billion (as of January 2016). Last year also featured substantial efforts to prepare the launch of two other key pillars of the Investment Plan, the Technical Assistance Advisory Hub which became operational in September 2015 and the Project Portal, which should become operational in Spring 2016.

In 2015 we continued working to ensure full and proper use of the strengthened framework of **surveillance** and towards completing the architecture of the **EMU**. Following the publication in 2015 of the "Five Presidents' Report", the Commission adopted a Communication on steps towards completing EMU that set out the priorities for the years ahead. In particular Stage 1, or "Deepening by Doing" (1st July 2015 – 30th June 2017) aims at using existing instruments and the current Treaties to boost competitiveness and structural convergence, achieving responsible fiscal policies at national and euro area level, completing the Financial Union and enhancing democratic accountability. The package of measures adopted by the College of Commissioners for the policy areas covered by the DG entails a revised approach to the European Semester; further improved economic governance through the introduction of national Competitiveness Boards and an advisory European Fiscal Board; and a more unified representation of the euro area in international financial institutions, especially the IMF. The latter is proposed to proceed in several stages, with ultimately the President of the Eurogroup as the representative for the euro area. Stage 2 of completing EMU is foreseen to be implemented during the latter part of the current College mandate.

Over the past years, the economic governance framework has deepened and widened in scope, notably through the implementation of the "six-pack" and "two-pack" legislation. But the framework has also gained in complexity. Against this background, in 2015 we continued working in operating the enhanced framework for economic and budgetary surveillance, aimed at consolidating good practices and improving the transparency, predictability and thus effectiveness of the rules.

The **European Semester** remains the key vehicle for integrated economic surveillance of EU MS across policy areas. By providing economic analysis and formulating policy guidance we played a major role in preparing and implementing the fourth European Semester in 2015. DG ECFIN contributed with major analytical work in country analyses providing a solid basis for defining major macro-economic policy challenges and appropriate policy responses not only for individual Member States, but as of 2015, with a stronger emphasis on policy priorities for the euro area as a whole.

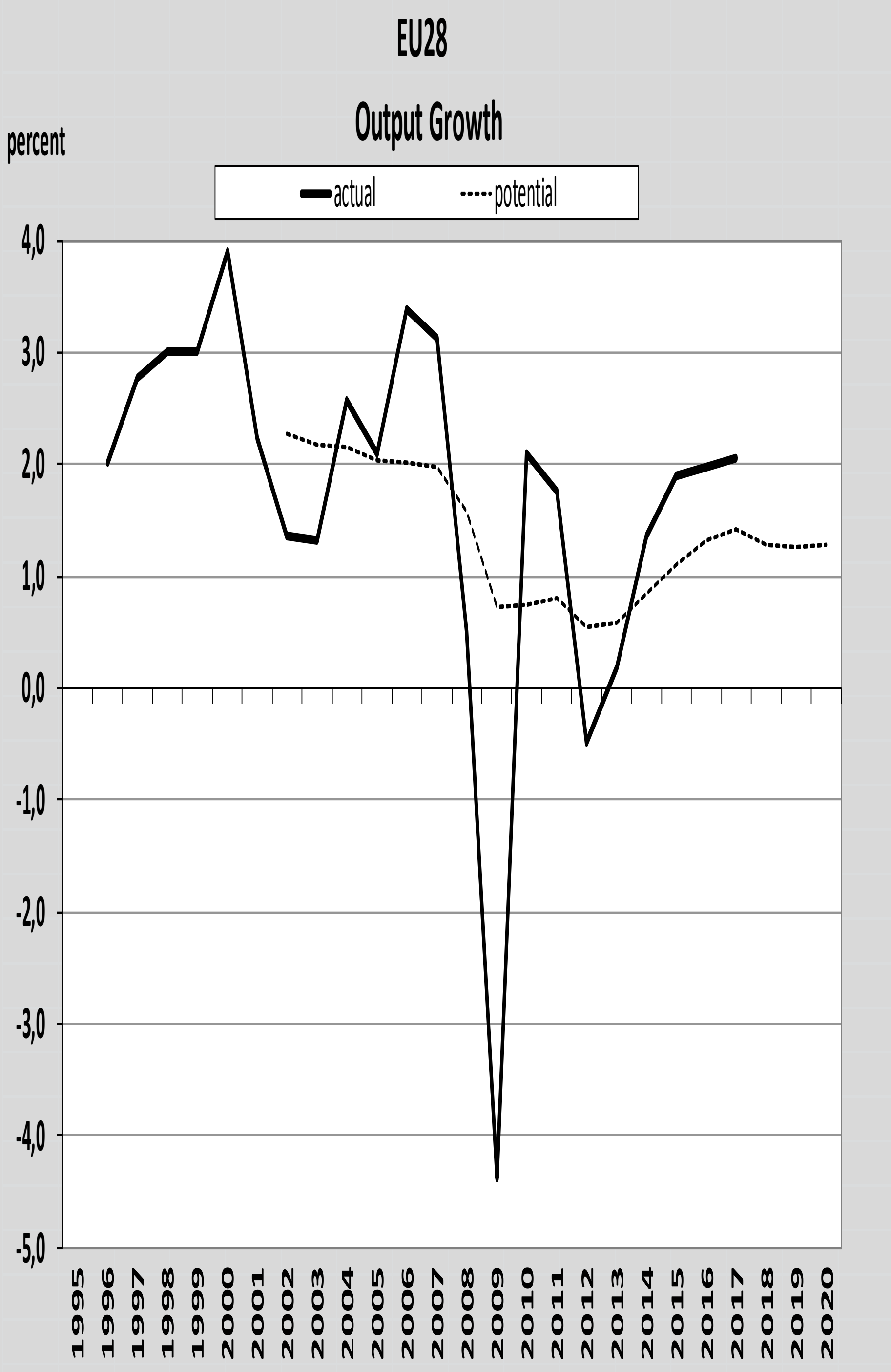
As regards the main pillars for the European Semester, ensuring the **sustainability of public finances** is a prerequisite for enduring economic growth and job creation. Last year, the Commission assessed Member States' Stability and Convergence Programmes against the requirements of the Stability and Growth Pact (SGP), six-pack and two-pack and issued budgetary recommendations. In November 2015 we published the Commission's second package of assessments of the 2016 Draft Budgetary Plans (DBPs) by the euro area MS not under a macroeconomic adjustment programme. None of these plans was found to be at serious risk of non-compliance with the SGP: however, a risk of non-compliance was identified in the DBPs of Italy, Lithuania, Austria and Spain. Moreover, Portugal had not submitted a DBP because of national elections: it was invited to do so as soon as possible.

Under the preventive arm of the MIP, we carried out in-depth reviews of sixteen MS, published in February. All sixteen MS were identified to be experiencing macroeconomic imbalances of differing degrees of severity requiring monitoring and an appropriate policy response at different levels. Overall, against the backdrop of a reduction of stress in financial markets (albeit with spells of heightened volatility), sluggish recovery and persistent low inflation, imbalances continued to unwind at a slow pace.

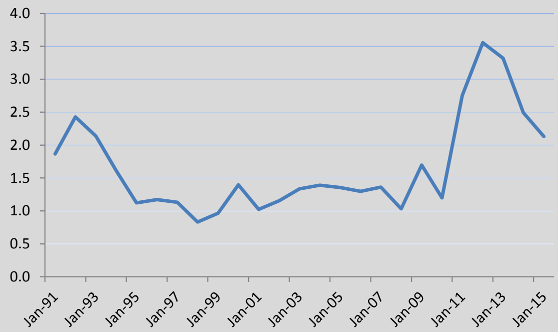
In 2015 we continued to closely monitor the policies of countries currently under adjustment programmes or having received exited them. Latvia's period of post-programme surveillance (PPS) ended in January 2015. Portugal, Romania, Spain and Ireland remained in PPS following their exits from programmes in the period 2013-2015. This left two euro area countries remaining under macro-economic assistance programmes: Greece and Cyprus. In Cyprus, the authorities' commitment to the programme bore results in several areas, with the economic recovery starting in early 2015 and unemployment starting to decline from still-high levels. In Greece, following a protracted period of uncertainty in the run-up to, and following, national elections, as well as the expiry of the second economic adjustment programme in July 2015, agreement on a third programme was reached in August. The first disbursements under the programme took place following assessments of compliance with a number of prior actions and milestones.

We also remain an important player in preparing the EU position and contributing to its coordination in international economic and financial institutions and fora, and in delivering support to countries outside the Union, notably in the form of Macro-financial assistance (MFA). With current account balances largely outside the direct control of policy makers, this underlines the importance of pursuing strong stabilisation and reform policies in the countries concerned, to which EU assistance is geared. In 2015, work on five MFA operations were pursued, most importantly resulting in a EUR 600 million loan to Ukraine.

b) Key Performance Indicators (3 KPIs)

KPI 1 To foster jobs, growth and investment – EU's potential growth/output	Increase potential output growth by promoting the implementation of growth-enhancing measures at EU and Member States Source: DG ECFIN 

<table>
<tr><td rowspan="3">KPI 2
A deepened, efficient and fair Economic and Monetary Union – The dispersion of output gaps</td><td>Baseline</td><td><u>Milestone / target</u></td><td><u>Result</u></td></tr>
<tr><td></td><td colspan="2">Cyclical divergence in the euro area, measured by the standard deviation of output gaps, has receded further in 2015, but remains above its long-term average. Cyclical divergence is a source of concern since it: (i) impedes the smooth functioning of the euro area by making the single monetary policy less effective; (ii) may become entrenched and turn into lasting differences in structural growth; and, (iii) may undermine citizens' trust in EMU and support for the euro.


</td></tr>
<tr><td>2015</td><td><u>Milestone</u>:
Implementation of surveillance
Reduction in current account imbalances and stock of external liabilities
Contribution to the Five Presidents' Report on EMU architecture
<u>Target</u>:
Reduce the dispersion in the output gap to its long-term average.</td><td>In the MIP 16 countries were identified to have imbalances of different natures, including both external surplus and deficit positions as well as addressing deleveraging needs. Policy follow-up was supported by targeted CSRs to address those challenges. The 21 October 2015 Communication included several proposals to strengthen the MIP in the future.</td></tr>
</table>

KPI 3 To promote prosperity beyond the EU – Countries benefiting from macro-financial assistance achieve a sustainable macro-economic situation	

Baseline	Milestone / target	Result
	Operations ongoing or set for implementation at the end of 2014 were for Ukraine, Jordan, Tunisia and the Kyrgyz Republic.	
2015	Milestone: Amount of MFA disbursed Target: Benefiting countries have achieved a sufficient level of foreign exchange reserves to ensure a sustainable macro-economic situation.	In 2015, tranche disbursements were made under all five operations mentioned above (ranging from a EUR 5 million loan to Kyrgyzstan to a EUR 600 million loan to Ukraine). The MFA operation in Jordan was fully disbursed, whilst the remaining four are expected to be completed during the course of 2016.

Current account balance (% of GDP)

Countries	Baseline	*Milestones					Target 2020
	2014	2015	2016	2017	2018	2019	2020
Jordan	-6.8	-7.4	-6.5	-6.2	-5.6	-5.0	-4.9*
Kyrgyzstan	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4*
Georgia	-9.7	-10.0	-9.5	-8.4	-7.7	-6.5	-5.4*
Tunisia	-8.9	-8.8	-7.9	-6.9	-6.3	-5.3	-4.5*
Ukraine	-3.5	-0.9	-2.8	-2.5	-2.7	-2.9	-3.0

Official foreign exchange reserves in months' imports of goods and services

Countries	Baseline	*Milestones					Target 2020
	2014	2015	2016	2017	2018	2019	2020
Jordan	6.7	7.0	6.7	6.4	6.4	6.6*	6.7*
Kyrgyzstan	4.2	3.7	3.2	3.3	3.4	3.6	4.0*
Georgia	3.1	3.1	3.7	4.3	4.6	4.9	4.9*
Tunisia	4.2	4.3	4.1	4.5	4.6	4.6	4.7*
Ukraine	1.8	3.0	3.5	3.6	3.9	4.0	4.1

*The instrument of MFA is by nature a short-term crisis related instrument spanning over 2 to 3 years maximum. This means that it is not possible to quantify its specific objectives in terms of indicators/milestones beyond the horizon of the MFA operations themselves or, at most, of the beneficiary countries' programmes agreed (or to be agreed) with the IMF. Therefore, for years going beyond the MFA operation or the IMF projections, the figures reflect the latest figure available, and are marked with an asterisk.

c) Key conclusions on Management and Internal control (executive summary of section 2)

In accordance with the governance statement of the European Commission, (the staff of) DG ECFIN conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG ECFIN has assessed the internal control systems during the reporting year and have concluded that the internal control principles are implemented and function as intended. Please see section 2.3 for further details.

In addition, DG ECFIN has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors (ECA). These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please see section 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

d) Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG[2]

This part provides an overview of the policy performance and progress towards the achievements of our general and specific objectives in 2015. During the reporting period, we were responsible for the contribution to three general objectives of the Commission: i) to foster jobs, growth and investment; ii) to seek for a deepened, efficient and fair EMU; and iii) to promote prosperity beyond the EU. In order to contribute to the general objectives, there are 15 specific objectives that define more concrete areas of action for DG ECFIN. Nonetheless, in many cases the control of the achievement of the specific objectives is shared between DG ECFIN and Member States. In this regard, the influence over result indicators by us is often rather limited.

An additive aggregation methodology was used to obtain a consolidated assessment of the operational expenditure contribution to the policy achievements.

Operational expenditures at DG ECFIN are of three types:

- *Grants: They all serve policy purposes reflected in their deliverables and cover macro-financial assistance (usually as an accessory to loans granted and with a mechanism similar to budget support); the fight against counterfeiting (sharing of information between experts); soft data on the economic environment (Business and Consumer Surveys); and strategic investment (advisory services provided by the EIB)*
- *Provisioning of guarantee funds and financial instruments: These are expenses of a technical nature triggered by balances on accounts. Policy achievements result from the further allocation of these funds to projects through financial intermediaries; guarantee calls; etc.*
- *Purchases of goods and services: These procurements are largely recurrent and required in order for operational services to adequately perform their policy duties. These purchases include data supply services; rating services; studies and surveys; statistical and economic software packages; IT development; and conferences and workshops. Goods and services are also required for the communication activities of DG ECFIN: events, public stands, audio-visual promotion, etc.*

Additional details are provided under the relevant specific objectives.

1.1 General Objective "To foster jobs, growth and investment

Following the 2014 communication 'Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth', we have in 2015 contributed to the ongoing internal reflection on Europe 2020 - the growth strategy for the EU.

An important part of our work is to deepen the understanding of fundamental drivers of productivity growth (role of skill developments and skill gaps, innovation dynamics, reallocation patterns of capital and labour including. cross-border mobility). The questions to be addressed include the role of labour and product markets in the analysis of growth drivers; the understanding of the workings of specific markets in individual countries and at EU level (the Single Market) and the operationalisation of the third pillar

[2] See footnote 1.

of the investment plan.

This year, the Commission has been working on removing bottlenecks to investments as part of the Third Pillar of the Investment Plan. In the energy and transport sectors, full implementation and strict enforcement of existing legislation has been seen as a first priority to foster investment in infrastructure and assets. In addition, the Energy Union has created momentum for the transition to a low carbon economy.

For this reason, we have worked on bottlenecks to investments with an emphasis on public investment, in particular infrastructures, and more generally in transport and energy. This has been done through the preparation of policy notes supporting discussions at the EPC (April 2015, September 2015) where MS agreed on the need to improve the quality of public investment and the need to crowd in private investments. This is part of an ambitious EPC work programme on the Third Pillar of the investment plan.

As a follow up on the short-term proposals made in the Five Presidents' Report two new actions have been undertaken– the creation of the National Competitiveness Boards and the launch of the Benchmarking of structural reforms, both announced in a communication on strengthening the EU governance framework adopted by the European Commission on 21st October 2015.

The progress of the achievement of this general objective is measured by 2 impact indicators: potential growth of the EU economy and employment rate in the EU.

The potential growth/output of the EU and the MS is a well-established indicator of the medium-term growth outlook based on economic fundamentals. By increasing EU's potential growth and economic structural strength, the EU's economy will be in a better position to benefit from the cyclical upturn which is currently taking shape. However, it is intrinsically difficult to distinguish cyclical from longer-term developments. The Autumn 2015 forecast has confirmed that potential output is set to edge up to 1.3% in 2016 and 1.4 % in 2017 in the EU, as the contributions from capital, labour and Total Factor Productivity (TFP) remain low.

1.2 General Objective "A deepened, efficient and fair Economic and Monetary Union"

We continued with the work on completing the EMU. In particular, we made a significant contribution to the package of initiatives which the Commission presented in October 2015 to implement the first stage on the basis of the proposals contained in The Five Presidents' report[3] of June 2015. The package contained initiatives to:

revamp the European Semester by:

- better integrating the euro area and national dimensions;
- stronger focus on employment and social performance;
- promoting convergence through benchmarks and pursuing best practices;

strengthen the external representation of the euro area;

enhance democratic dialogue and accountability including the involvement of social partners;

[3] Completing Europe's Economic and Monetary Union

improve the economic governance toolbox by:

- simplifying some elements of the fiscal rules
- improving transparency of the MIP
- setting up Competitiveness Boards;
- establishing the European Fiscal Board.

The aim has been to improve the functioning of the EMU and to enhance its potential by implementing the EU economic governance framework, in particular for the euro area, promoting the adoption of structural reforms that improve MS' adjustment capacity and employment and social outcomes, and pursuing surveillance mechanisms aimed at detecting and addressing macroeconomic imbalances at an early stage. These objectives are also pursued in the context of the deepening of EMU work stream as outlined in the Commission 21th October Communication. Concrete initiatives include: the earlier adoption of the aggregate analysis and recommendations for the euro area in November 2015, together with the Annual Growth Survey (AGS), so that common challenges could be reflected in the analysis and recommendations for individual euro area countries; greater attention put on employment and social performance, notably with the promotion of the involvement of social partners at all levels and the addition of 3 employment indicators (the activity rate, long-term and youth unemployment) to the main MIP scoreboard; the proposal to set up a system of National Competitiveness Boards (NCB). The transparency of the implementation of the MIP has been increased, as a follow up on the review of the six-pack, such as by writing a Compendium on the application of the MIP.

The business cycles of euro area MS' diverged sharply following the sovereign crisis. Cyclical differences have recently diminished as the recovery has gained strength but they remain high by historical standards. The large and persistent cyclical divergences currently observed in the euro area can mainly be explained by large heterogeneity in MS' economic structures, inadequate national economic policies, insufficient cross-border integration and shortcomings in EMU architecture including inadequate risk sharing. Reliable measurement of output gaps is a pre-requisite for effective fiscal policy actions aimed at reducing output gap dispersion. We play an important role in developing the EU's commonly agreed methodology, in collaboration with the EPC and technical experts from all of the EU's MS. The performance of the method is regularly assessed and compared to equivalent methodologies used by other international organisations such as the OECD and the IMF.

1.3 General Objective "To promote prosperity beyond the EU"

We contribute to fostering economic prosperity and stability in countries covered by the European Neighbourhood and Enlargement policies through economic analysis, policy advice and, where necessary, financial assistance. In particular, in 2015, we performed enhanced economic surveillance of enlargement countries, and conducted macroeconomic dialogues both with enlargement and neighbourhood countries. In addition, we continued to provide MFA to countries experiencing serious balance of payments tensions, with a view to restoring a sustainable external financial situation and encouraging economic adjustments and structural reforms.

While EU enlargement countries have made gradual progress in meeting EU economic accession criteria over the last years, none of them is expected to fully meet the requirements in the short-term. An enhanced economic surveillance and governance was implemented in 2014 and further strengthened in 2015 and should guide enlargement countries towards improving economic policy making, allowing for gradual progress towards the final objectives.

Economic stabilisation and external sustainability remains challenging in a number of neighbourhood countries. Of countries benefiting from MFA, some are progressing with macroeconomic stabilisation and with bringing their external financial situation on a sustainable path over the medium-to longer term, whereas others require further efforts.

In 2015, we played an important role in the representation of the EU in fora for global economic governance such as the G7, G20 and IMF. In this context, we successfully coordinated common EU positions and statements on international economic and financial issues. We also ensured an effective participation of the Commission in the relevant international institutions during the course of 2015. In addition, we conducted bilateral economic dialogues with several G20 countries, the Gulf Cooperation Council, EFTA, EU's enlargement countries as well as EU's neighbourhood countries, gaining a better understanding of each other's economic policies and creating opportunities to address common economic challenges. Finally, we provided economic analysis and policy advice in several areas of EU's external action.

1.4 Specific objective- Economic Governance and euro-area reforms

We continued i) the work on economic governance and euro area reforms through initiatives on completing the EMU and ii) the recommendation and monitoring of implementation of an appropriate combination of structural reforms and macroeconomic policies promoting sustainable growth and jobs, duly taking into account cross-border spillovers, notably in the euro area, easing the deleveraging burden on high-debt countries and reducing persistent surpluses.

After a number of difficult years when policy-makers were sometimes faced with the alternative between front-loaded consolidation and the risk of losing market access, the fruits of years of large fiscal efforts matured, with the negative short-term impact of the consolidation packages waning and a moderate recovery taking hold in the euro area. According to the Commission 2016 Autumn forecast, on the back of the recovery, the headline budget deficit is projected to continue to decrease through 2016 in the euro area to reach 1.8% of GDP and public debt will, after peaking in 2014 at almost 95% of GDP, keep falling, at a slow pace, reaching 92.9% of GDP in 2016, even though the fiscal stance is expected to become more supportive, while still remaining broadly neutral.

This should be assessed against the twin objectives of long-term sustainability of public finances and the need to support the moderate recovery. The latter is particularly relevant to ensure a shift from external to domestic sources of growth in the face of a worsened global environment. Therefore, the Commission considered that a broadly neutral fiscal stance for the euro area as a whole for the period 2015-2016 is appropriate. Yet sustainability is essential and our rules are designed to improve it by reducing public debt, in particular when the economy is performing well. This is one of the main lessons of the financial crisis: while the crisis was not fiscal in origin, the lack of fiscal buffer, in many countries, prevented an active use of the fiscal instrument when and where it was most needed.

The Commission contributed to this result by providing – in its Communication on flexibility within the SGP presented in January 2015 – an operationalisation of the prescriptions of the SGP on flexibility. In particular the Commission indicated how the convergence path to a sound medium-term budgetary position has to be modulated to take into account cyclical developments. The same Communication also operationalises the provision of the preventive arm which allows for a temporary deviation from the Medium-term Budgetary Objective, or the adjustment path towards it, to support structural reforms and investments that benefit the sustainability of public finances, including by raising potential growth.

The Commission also took steps to improving the tools of economic governance in its Communication of October 2015. Recognising that the fiscal rules have become complex, the Commission is committed to clarifying the operation of the rules, and increasing transparency and predictability in their application, thus improving the effectiveness of existing rules

As in the previous year, we continued to play a key role in the implementation of the all the main steps of the 2015 European Semester. Compared to the previous macroeconomic surveillance cycles, a number of changes were introduced in the 2015 European Semester with the aim of focusing on the top priority areas for action in each MS, of promoting greater implementation of the recommendations and to increase ownership at national level and with social partners and stakeholders. These changes included:

- *A better focus on the priorities in the AGS with fewer recommendations on key priority areas for actions.*
- *An early publication of the Commission's country-specific and euro area analysis to allow for deep discussion with Member states and social partners on the key issues.*
- *For those MS where the macroeconomic Imbalance procedure required an in-depth review; these were integrated into a single country report.*
- *Fewer and more focused Country specific recommendations (CSRs)*
- *More intensive outreach at political level and deeper discussion between Members of the Commission, national authorities and social partners on implementation of past recommendations and potential areas for future recommendations.*

These changes have been broadly welcomed by MS which supported a stronger focus of the Semester on a limited number of priorities and challenges.

The 2015 European Semester was launched in November 2014 with the Annual Growth Survey, which outlined the new Commission's three-pillar jobs and growth strategy: boosting investment, accelerating structural reforms and pursuing responsible, growth-friendly fiscal consolidation. The Commission simultaneously published its Alert Mechanism Report (AMR) on the Macroeconomic Imbalance Procedure (MIP). Based on a scoreboard of economic and social indicators, the AMR identified 16 MS that require further analysis. In February 2015, we published a series of country reports, analysing the economic, fiscal and social situation, economic policies and structural challenges ahead in each MS, including the assessment of the progress made by MS in implementing the 2014 CSRs. The main findings were summarised in a Chapeau Communication presenting the Commission decisions, notably on the MIP for the 16 countries whose reports included in-depth reviews. The table below provides the main outcomes of the in-depth reviews compared to the year before.

	MIP categories	2014	2015
1	No imbalance	-	-
2	Imbalances, which require monitoring and policy action	BE, BG, DE, NL, FI, SE, UK	BE, NL, *RO**, FI, SE, UK
3	Imbalances, which require monitoring and decisive policy action	HU	HU, DE
4	Imbalances, which require specific monitoring and decisive policy action	IE, ES, FR	IE, ES, SI
5	Excessive imbalances, which require specific monitoring and decisive policy action	HR, IT, SI	BG, FR, HR,IT , *PT**
6	Excessive imbalances, which require decisive policy action and the activation of the Excessive Imbalance Procedure	-	-

Notes:

* In 2014, Portugal (PT) was still under an economic adjustment programme and Romania (RO) in a precautionary programme.

The European Semester remains at centre the EU economic governance, as it refers to the EU annual cycle of economic policy guidance and surveillance, where the Commission identifies- for each Member State and the euro area as whole- (i) the main macroeconomic-financial and social challenges and imbalances, (ii) analyses the macroeconomic structural reforms policies and/or policy action, provides recommendations, and (iii) monitors regularly their implementation.

We were also deeply involved in the preparation of the 2015 CSRs for each MS, which the Commission published in May 2015 along with an overarching Communication how to strengthen and sustain the recovery, and how the streamlined European Semester is implemented. We have also provided the Commission's assessment of the 2014 CSR implementation in all MS, which indicates that just over half (53%) of the CSRs adopted by the ECOFIN in July 2014 have made at least "some" progress on implementation.

The table below presents an overview of the 2015 CSRs for each MS:

	Public finances and welfare systems				Financial sector		Labour market			Product and service markets		Education	Social inclusion	Administration	
	Public finances	Taxation	Pension system	Healthcare system	Banking and access to finance	Housing and private debt	Labour market	Labour taxation	Wage-setting	Services and network industries	Innovation and business environment	Education and skills	Poverty and social inclusion	Administrative modernisation and rule of law	
AT	■		■		■		■			■		■		■	AT
BE	■	■	■				■	■	■					■	BE
BG	■	■		■	■				■			■	■	■	BG
CZ	■	■		■				■				■	■	■	CZ
DE		■	■				■	■		■	■	■		■	DE
DK	■									■					DK
EE	■						■	■			■	■		■	EE
ES	■			■	■		■		■	■				■	ES
FI	■		■	■			■		■	■				■	FI
FR	■	■	■				■		■	■				■	FR
HR	■	■	■	■	■	■	■		■	■				■	HR
HU	■	■			■		■	■		■		■	■	■	HU
IE	■	■		■	■	■	■						■		IE
IT	■	■			■		■		■	■	■	■		■	IT
LT	■	■	■				■	■				■			LT
LU		■	■						■						LU
LV	■			■			■	■			■	■		■	LV
MT	■		■		■							■			MT
NL			■			■					■				NL
PL	■	■	■				■			■					PL
PT	■	■	■		■	■	■		■	■				■	PT
RO	■	■	■	■			■		■			■	■	■	RO
SE						■									SE
SI	■		■	■	■		■		■					■	SI
SK		■		■			■			■		■	■	■	SK
UK	■					■	■								UK
Euro area	■	■			■			■		■					Euro area

The progress in implementation of the 2014 CSRs has been continuously monitored and the CSR database was complemented with the 2015 CSRs. In addition, a note on the technical assessment of the implementation of the CSRs was presented and discussed with MS in the LIME Working Group in June and a web-based tool (CeSar) was developed for the regular monitoring and assessment of CSR implementation by MS.

Conceptual work on benchmarking has also been initiated and will be pursued and operationalised in 2016. Benchmarking can help foster the implementation of structural reforms, including the completion of the Internal Market. The cross-examination of performance allows to identify important policy challenges and to draw lessons from countries' experiences and practices. Benchmarking can also enhance the ownership of structural reforms by the MS.

Ensuring an effective a timely fiscal surveillance is of key importance to promote and maintain the fiscal stability in the euro area and the EU. To this end a number of dedicated documents are prepared by us[4]

[4] These documents can take the form of (i) dedicated notes to the ECOFIN or its Committees (i.e., EFC or EWG), (ii) legal documents and accompanying Staff Working Document (SWDs) as for the case of SGP provision, (iii) country-specific Commission Opinions as for Draft Budgetary Plans and (iv) Commission Communication in case of the overall assessment of draft budgetary plans in the euro area.

In 2015, a number of steps under the Excessive Deficit Procedure (EDP) have been taken, notably: following the 2015 winter forecast, the Commission issued a report under Article 126(3) in the case of Belgium (BE), Finland (FI) and Italy (IT) in February 2015, concluding that no EDP should be opened at that stage and a revised recommendation under Article 126(7) for France (FR). Further to the 2015 Spring forecast, the Commission issued i) a decision on no effective action and a revised recommendation under Article 126 (7) for the UK; ii) a report under Article 126(3) for FI concluding that no EDP would need to be launched, and iii) in May 2015 a decision of abrogating the EDP in the case of Poland (PL) and Malta (MT). Following the Autumn forecast, the Commission issued a report on effective action for the UK and a report under Article 126 (3) in the case of Bulgaria (BG), Denmark (DK) and FI in November 2015.

For the third time since the entry into force of the Two-Pack, in Autumn 2015 the Commission assessed euro area MS' DBPs. As a result of this assessment the Commission has issued: i) a horizontal communication assessing the fiscal situation in the euro area as a whole and ii) 15 Opinions and accompanying Staff Working Documents (SWDs) assessing the 2016 DBPs (the Opinion on the Spanish DBP for 2016 was issued on 12 October 2015 and Portugal only submitted a DBP for 2016 on 22nd January 2016, with the respective opinion issued on 5th February 2016. As in the past two rounds, also in 2015 no cases of particularly serious non-compliance were identified thus no re-submissions of DBPs were requested. However, based on a detailed analysis against the background of the autumn 2015 forecast, the Commission has flagged different degrees of risk and called upon the MS to take appropriate action, notably to the four MS at risk of non-compliance (three under the preventive arm, one under the corrective arm) but also to the seven MS assessed to be broadly compliant with the requirements of the SGP (six under the preventive arm, one under the corrective).

We prepared the proposal for 2016 euro area recommendations, which the Commission adopted in November 2015. The recommendations focus on reforms and actions which are critical for the functioning of the euro area. The recommendations were published at the beginning of the European Semester to better integrate the euro area and the national dimensions of economic governance and to ensure that common euro area concerns are fully reflected in country-specific recommendations in the second half of the policy coordination cycle. As previously, the recommendations were accompanied by a dedicated SWD which analyses the specific euro area challenges and serves as an analytical background to the recommendations. It also reviews the progress that has been made by MS in the implementation of the 2015 recommendations.

As regards on-going audits by the Court of Auditors in 2015 related to the Quality of Excessive Deficit Procedure and macro-economic data and effectiveness of the Commission's tighter surveillance of economic and fiscal policies, Macro-economic Imbalance Procedure, and European Semester, see Section 2.2.

1.5 Specific objective - Enhanced Integrated Surveillance

We played a major role in preparing and implementing the fifth European Semester in 2015 which remains the key vehicle for integrated economic surveillance of EU MS across policy areas through providing economic analysis on key challenges and the formulation of policy guidance. Our economic surveillance proposals have been an integral part of the Commission proposals to complete EMU deepening and the 2016 AGS of autumn 2015. Surveillance encompasses 2015 Country Reports for non-programme countries, which integrated In-depth Reviews for the 16 countries selected in the AMR 2015.

In line with the increasing importance of enhanced integrated surveillance and following the increasing attention of the Country-Specific Recommendations (CSR) monitoring by MS, we have increased the number of assessment rounds for the implementation of CSRs. In addition, we have reported our assessment to member states through discussions at Council Working Groups (i.e. European Policy Committee, Economic and

Financial Committee – Alternates). Our CSR assessment was also included in the Communication accompanying the adoption of the Country Reports in February 2015 and the CSR in May 2015. In addition, with the aim of strengthening the internal consistency and transparency of the Commission forecast, we have fully integrated the database of fiscal measures (DSM) in the forecast framework. The forecast of the economic outlook in the EU and the euro area is the starting point for many strands of integrated surveillance as it informs and facilitates economic policy decisions in the euro area and the European Union.

The analytical and methodological work aiming to support the economic surveillance in the context of the Semester has focused on the analysis of deleveraging, competitiveness, export performance, FDI dynamics, state-owned enterprises (SOEs), insolvency and structural reforms, ensuring that community policies (transport, energy, climate change and cohesion) are implemented in a cost effective way at national level. Full use of economic and policy indicators has been made.

Countries fiches have been prepared for different areas of challenges and reforms. A pilot was launched to assess the overall impact of reform efforts in France, Spain, Italy and Portugal.

A decision to produce a SWD on Member States Investment Challenges, as part of the AGS, was made in October 2015.

At the time of the preparation of the mid-term review of the ECFIN 2015 Management Plan, the availability of data, needed as a background for the preparation of The Economic Impact of Rescue and Recovery Frameworks in the EU, was not yet confirmed. However, the economic paper was published in September 2015.

As regards on-going audits by the Court of Auditors in 2015 related to the Financial Assistance provided to Countries in difficulties, see Section 2.2.

1.6 Specific objective - Acting as the economic service for the Commission as a whole

With the change in the Commission, our work acting as the economic service for EU policies has focused on the new initiatives and the investment plan of the Juncker Commission. The approach has been selective and concentrated on those initiatives with the highest macro-economic impact and link to investment, in particular initiatives related to the Digital single market, the Internal market Strategy for goods and services; as well as initiatives on long-term unemployment and the Labour mobility package.

As an economic service function, we have continued to support the initiatives of other DGs – notably DG ENER, DG REGIO, DG GROW, DG CNECT.

We have played a key role in coordinating activities across the Commission on the regulatory bottlenecks to investment at national level and linked to EU policies. Several contributions have led the debate in the ECOFIN. In particular, a report on Investment in electricity markets was prepared, as a part of the Energy Union Package, which identifies the main challenges and discusses possible options to address the investment problem. As regards cohesion policy, we led the preparation of a vade mecum on the implementation of the macro-conditionality. It was prepared in close cooperation with DG REGIO and other services (DG EMPL, LS, DG BUDG, DG MARE, DG AGRI, SG) and published as a SEC document in July 2015.

1.7 Specific Objective - Euro-area enlargement

Convergence reports are prepared every two years and therefore no assessment was done in 2015. Generally, MS with a derogation performed rather well in terms of nominal convergence, though challenges remain, while some countries exhibit macroeconomic imbalances. Inflation was generally low or even negative, in particular on the back of sharply declining energy prices. Only Croatia had an excessive fiscal deficit in 2015. No MS with a derogation is currently participating in ERM II. Long-term interest rates remained low in the Czech Republic and Sweden, while they increased in Croatia and Poland reflecting potential country risk. Imbalances found under the MIP for Hungary and Romania and excessive imbalances found for Bulgaria and Croatia underlines the policy challenges faced by MS in ensuring a sound and sustainable convergence path.

The next convergence assessment as foreseen by the Treaty will take place in mid-2016. We will assess the level of progress by non-euro area MS towards sustainable convergence. However, the future euro-area enlargement will mainly depend on the achievements made by the MS. We will continue to support MS in this regard.

1.8 Specific Objective - Financial assistance to Member States

We have a specific objective to preserve macro-economic and financial stability in the EU by providing financial assistance to both euro-are and non euro-area MS, should they face a severe deterioration in their borrowing conditions or difficulties with their balances of payments, respectively. Under this objective we continued to closely monitor the policies of countries under adjustment programmes in 2015. The economic adjustment programmes are aimed at ensuring a return to financial stability, fiscal sustainability and sound macro-economic growth, and thereby also preserving the financial stability in the Union and the euro area. We contributed to positive outcomes through regular programme reviews and monitoring. For (part of) 2015, the countries under adjustment programmes were Romania in a precautionary BoP programme, and Greece and Cyprus under ESM macro-economic assistance programmes. In this way this specific objective contributes to the general objectives of fostering jobs, growth and investment and to a deepened, efficient and fair EMU. This specific objective has two result indicators: programme execution being on track and an indicator relating to the gross international reserves of Romania. In both cases, our involvement is contributory as the actions of the MS in question are of primary importance in terms of the indicators being met.

Romania:

In October 2015 Romania entered Post-programme surveillance (PPS) with the expiration of its second precautionary programme. Romania ended its programme 2015 with gross international reserves covering 100% of its short-term external debt and around 6 months of imported goods. The programme ran from 2013 to 2015, during which time no reviews were concluded due to non-compliance with policy conditionality. Post programme surveillance is due to run until at least May 2018. The first PPS mission will be in spring 2016.

Cyprus:

In March 2013, a political agreement on an adjustment programme was reached between the troika institutions and national authorities. The external financing envelope amounts to EUR 10 billion, with EUR 9 billion provided by the ESM and EUR 1 billion by the IMF. In the beginning of 2015 the programme was off-track as an important milestone for addressing problems in Cyprus' financial sector – bringing into force an effective foreclosure framework (a prior action) – was only met with a delay, on 14th May 2015. As a result, the conclusion of the 6th review was delayed until June 2015. For the rest of the year, progress with the reform programme was good. In particular, economy growth turned positive 2015 and fiscal programme targets were continued to be met with a sizeable margin. Structural reforms have also progressed, albeit at a slower pace than envisaged. Stronger implementation of financial sector reforms was still required to reduce the excessive level of non-performing loans in the financial sector (remaining as number one priority for the programme). While under the programme, Cyprus has resumed market access with the latest EUR 1bn 10-year bond issuance in November

2015. As a result of good programme outturn, re-established market access and limited financing needs in the medium-term, the Cypriot authorities do not intend to draw on a substantial buffer of programme funds (in excess of EUR 2 billion) or request a precautionary programme.

Greece

The 2nd adjustment programme which was agreed in March 2012 was due to run until 31st December 2014. In December if was extended for two months, until end February 2015, and then for a further 4 months until end June 2015. The 5th review of the programme – which was pending from late 2014, was never concluded and no payments were made under the second adjustment programme in 2015. In late June 2015, Greece missed a repayment to the IMF. Following a national referendum on a new programme, a bridge Programme from the EFSM was signed on 18th July 2015, providing EUR 7.16 billion of financing for three months, which allowed Greece to repay the IMF. A new 3 year ESM programme was signed on 19th August 2015 providing up to EUR 86 billion of financing. A first disbursement of EUR 13 billion was made on 20th August, with EUR 10 billion made available for the banking sector. On the same day, the EFSM loan was repaid. A further EUR 8.4 billion was disbursed later in 2015. The first review is due to be concluded in 2016. Progress with the reform programme remains good.

Portugal, Ireland and Spain

Ireland, Portugal and Spain entered PPS in 2013 and 2014, with the conclusion of their assistance programmes. Two PPS missions took place for Ireland and Spain in 2015, and one for Portugal, which was the last to leave its programme in 2014. We continue to monitor the countries closely with their return to full market financing.

In 2015, the first ex post evaluation of economic assistance programme for a euro area country was undertaken in-house. Measures were taken to ensure the independence of the evaluation team with the project managed by a steering committee, which bypassed the usual reporting lines. The ex post assessment of the Irish programme was published in July 2015. The ex post evaluations of the programmes for Spain and Portugal were launched, also to be undertaken in house. Publication is expected in 2016.

The evaluation concludes that the programme was relevant, coherent and effective. Ireland regained market access and made significant progress on financial sector repair, fiscal consolidation and a return to sustainable growth. Programme financing enabled a smooth and sustained return to full market access for the Irish sovereign. The programme was effective in restoring creditors' confidence in the financial system. Banking supervision improved significantly. Fiscal targets were realistic. Meeting them with a margin added to the credibility of the programme and helped break the vicious financial-sovereign loop was so damaging to the Irish economy. Fiscal governance has also been strengthened. The positive macroeconomic outcomes were a direct result of the programme and could not have been achieved without EU intervention.

Given the high financial market volatility and uncertainties about banks' capital needs, the inclusion of a sizeable contingent reserve in the financial envelope added to the effectiveness of the programme.

The evaluation concludes that the programme design contained an appropriate and relevant set of measures to effectively address Ireland's economic and fiscal challenges. Financial sector measures were appropriately focused and generally effectively implemented. Conditionalities and targets were appropriate and reflected complex considerations. However, broader financial sector governance measures should be given a high priority.

Targeted structural reforms included in the programme were broadly appropriate but their implementation faced some political and technical challenges. Broader based reforms have been relevant and appropriate but will take time to make an impact.

Overall the programme was consistent with EU rules and initiatives and benefitted from them. Ireland's experience also informed the creation of the new EU/EA regulatory framework.

1.9 Specific Objective - Protection of the euro against counterfeiting

Since January 2015, ECFIN has the responsibility to protect the euro against counterfeiting. To this end, its work rests on four pillars: prevention and repression through legislative measures, training through the Pericles 2020 programme and regular support to its European partners. Essential to achieving this objective is the analytical work and training carried out to protect euro coins by the European Technical and Scientific Centre (ETSC)

Pericles 2020 Programme

The 'Pericles 2020' programme (Regulation (EU) No 331/2014) forms the training pillar of the European Commission's policy with regard to anti-counterfeiting by providing funds for staff exchanges, seminars, trainings and studies for professionals involved in preventing and combating euro-counterfeiting. We work closely together with MS agencies (law enforcement and judicial authorities, central banks) European Central Bank (ECB) and Europol in achieving this task. Discussions of the programme's multi-annual strategy and the needs of MS take place at the meetings of ECFIN's Euro Counterfeiting Experts Group (ECEG) gathering Europol, ECB and the MS experts.

The annual work programme for 2015 of the Pericles 2020 programme 2015 was adopted on 17th April 2015. The annual budget for the implementation of the 'Pericles 2020' programme - call for proposals reference 2015 ECFIN 007/R6 was set at EUR 1.024.800, and was financed from the budget line 24 03 01 of the general budget of the European Union for 2015. This programme was implemented through direct expenditure and under the call for proposals 2015. Two deadlines for applications were set 94.4%, A total of EUR 967 739.33 or 94.4% of the overall budget was committed in 2015. Importantly, the Regulation, extending the application of the ''Pericles 2020'' programme to non euro area MS, was adopted by the EU legislator on 11th May 2015.

In 2015, the programme funded 12 projects - 8 seminar/conferences and 4 staff exchanges; 9 of the funded projects originated from the competent authorities of Euro area MS, while 3 were initiatives of the Commission. The 2015 programme highlighted MS endeavors to reach and educate officials not only in the EU but also in Latin America, China, North Africa, the Balkan Area, Turkey and Eastern Europe. We attend and contribute to all the seminar/conference actions implemented by MS. The draft budget for 2017 adopted by the Commissions for Pericles 2020 in 2017 foresees for EUR 1 047 500 in expenditure related output. The programme statement indicators remain the same for the draft budget 2017.

In the framework of a complex investigation Italian Law Enforcement seized about 300 000 coins of EUR 2 and EUR 1 produced in China and shipped to Italy. To date, this result represents the most substantial and significant amount of counterfeit euro coins ever seized in Europe since the introduction of the euro as the single currency. The investigations also confirmed, for the first time and through unequivocal investigative findings, that these counterfeit coins were shipped from China.

ETSC (European Technical & Scientific Centre) performed a technical inspection on-site, confirming the high quality of the counterfeit coins seized, and also coordinated a Task Force of MS experts in order to analyse and classify all the counterfeit coins.

Anti-euro counterfeiting

In order to protect the euro as a global currency, we develop and monitor policy with regard to anti-counterfeiting. The legal basis of the CCEG was re-defined in 2015 under the Commission Decision setting up the Counterfeit Coin Experts Group on the Commission's policy and Regulations regarding the protection of euro coins against counterfeiting C(2015) 6968 published 19 October 2015. Progress was made on the planned initiative of the "Modification of the Commission Decision establishing the ETSC (2005/37/EC), to regulate the transfer of the activities on euro protection from OLAF to ECFIN (OJ L 19, 21.1.2005, p. 73)", however its adoption was delayed due to a change of priorities.

As described in the related impact and results indicators, the Commission made important progress in the implementation of efforts to protect the euro against counterfeiting. Reports by law enforcement agencies to us on 2014 criminal statistics demonstrate that efforts to protect the euro against counterfeiting have led to an increase in the number of individuals arrested/charged as well as in the number of workshops dismantled and further increases in counterfeit banknotes and coins detected in circulation (see Annex 12).

One of the key instruments to achieving an effective protection of the euro is the work carried out by the European Technical and Scientific Centre (ETSC). It assists MS Coin National Analysis Centres (CNACs) and law enforcement authorities and cooperates with the relevant authorities in the analysis of counterfeit coins. In this combined Commission-MS effort, nearly 150,000 counterfeit euro coins were detected and were withdrawn from circulation in 2015.

Commission and the ETSC, having developed an "Action Plan" to tackle the diffusion of a sophisticated counterfeit euro coin, consolidated its work on the updating of coin-processing machines with CNACs and representatives of the Coin Processing Machine Industry in order to better detect this particularly dangerous common class. Per its mandate, the ETSC informed its partners on its activities and on the situation with regard to coin counterfeiting through its quarterly statistics and its annual publications:

- *The Annual Report on euro coin counterfeiting and ETSC activities.*
- *Annual Report to Economic and Financial Committee on developments and results concerning authentication of euro coins and euro coins unfit for circulation.*

Fulfilling the objectives, we chaired three meetings of the Euro Counterfeit Experts Group (ECEG) and two of the Counterfeit Coin Experts Group (CCEG) were held in 2015. To note, the legal basis of the CCEG was re-defined in 2015 under the Commission Decision setting up the Counterfeit Coin Experts Group on the Commission's policy and Regulations regarding the protection of euro coins against counterfeiting C(2015) 6968 published on 19th October 2015. A consequence of the shift of the unit from DG OLAF to DG ECFIN was the impossibility to host and finance two ETSC Work Team meetings as per the specific objective indicators. The unit concentrated its efforts on elaborating and ensuring the adoption of the above-mentioned Commission Decision C (2015) 6898 in order to provide for future financing of these work team meetings.

1.10 Specific Objective - Bridging the investment gap, notably through the EFSI

The **Investment Plan for Europe** focuses on removing obstacles to investment, providing visibility and technical assistance to investment projects and making smarter use of new and existing financial resources. To achieve these goals, the plan is active is three areas: (1) mobilising investments of at least EUR 315 billion in three years (implemented via the EFSI); (2) supporting investment in the real economy (via EIPP and EIAH); and (3) creating an investment friendly environment.

In 2015, we were the lead service in the Commission to develop the EFSI, the funding pillar of the Investment Plan for Europe and a key tool to enhance investment in the EU. EFSI allows the EIB to increase its risk bearing capacity and thus to expand its volumes of lending to activities with a higher risk profile. EFSI is run by the EIB. We were involved in the preparation and negotiation of the EFSI Regulation, the negotiation and the conclusion of the EFSI Agreement with the EIB and the development of specific financing products under EFSI, the preparation of Steering Board documents and meetings including under its Small and Medium Enterprise (SME) Window.

The EFSI Regulation was adopted on 25th June 2015 and the EFSI Agreement between the Commission (representing the EU) and the EIB was concluded on 22nd July 2015. In the second half of the year, we further supported the implementation of EFSI by approving operations under the EU guarantee coverage, pending establishment of EFSI governance structures, and also by working with the EIB on filling EFSI governance posts. By year-end under EFSI, a significant number of EFSI projects have already been approved by the EIB Group for a total investment value of about EUR 50 billion (as of January 2016): EUR 25 billion for Infrastructure and Innovation investments and EUR 25 billion in favour of SMEs, evidence of a very successful roll out of the instrument. The EFSI operations are additional to normal EIB Group activities and those supported by centrally managed EU financial instruments. Their value added lies in addition on the emphasis placed on crucial EU-level market failures, such as cross-border operations, and early-, expansion- and growth-stage financing of SMEs and small midcaps, and on the scale economies reachable through co-financing platforms.

The **European Investment Advisory Hub** (EIAH) is another important element to complement the EFSI. It went live on 1st September 2015 and offers project promoters a single point of entry for technical assistance, as well as guidance and advice. The EIAH is a joint initiative by the European Commission (EC) and the European Investment Bank (EIB). The EIB is responsible for the management of the Hub which is established within the Bank. We worked closely with the EIB team during the setting up of the Advisory Hub on the negotiation and the conclusion of the EIAH Agreement, the design of the work programme underlying the 2015 Specific Grant Agreement and the development of a number of policy documents (including EIAH pricing policy). Moreover, the EIB and DG ECFIN worked closely with a Core Group of National Promotional Banks (NPBs) and prepared a Memorandum of Understanding (MoU) for possible cooperation between EIAH and the NPBs. Seven NPBs signed the MoU already in 2015. DG ECFIN is also chairing the EIAH Coordination Committee meetings thus closely monitoring the progress made in the implementation of the work programme.

The **European Investment Project Portal** (EIPP) is designed as a publicly available web portal enabling EU-based project promoters to boost the visibility of their projects to potential international investors. As the EIAH, EIPP is part of the second strand of Juncker's Plan which aims to channel investments where they are the most needed. EIPP is the only strand among the three initiatives of the Investment Plan for Europe (EFSI, EIAH and EIPP) which is developed by the Commission without the involvement of the EIB. We are the lead DG for the EIPP development, implementation and monitoring. In 2015, we were in charge of the design of the Project Portal and worked in close cooperation with DIGIT for the development and implementation of the IT solution for the Portal. EIPP is expected to go live in the first quarter of 2016, contingent on its ability to attract a 'critical mass' of quality projects across different sectors and across the EU geographically.

1.11 Specific Objective - To promote the use and enhance the efficiency of investment and EU financial instruments

As regards the operational management of programmes, we were responsible for the implementation of the **Competitiveness and Innovation Programme (CIP) instruments**. The CIP programme meets EU objectives through its contribution to regional development as it works through a number of regionally based financial intermediaries and towards increasing competitiveness and productivity of SMEs.

In 2015, the CIP programme, particularly with its SMEG 07 (providing guarantees) and GIF (providing venture capital) components provided again an essential contribution to SMEs' support in the EU, with a specially counter-cyclical role devoted to the Guarantee Facility (SMEG07) under CIP. It helped final beneficiaries to face the difficulties still arising from the economic conditions in 2015, namely to obtain or maintain access to finance and to create or maintain jobs over the period.

By the end of September 2015, as from its start, the **SME Guarantee Facility** (SMEG07) catalysed EUR 20.3 billion of loans into SMEs with the limited EU budget of EUR 637.8 million that was used to guarantee loans underlying the instrument. In this regard, the leverage effect for the Facility (total loan volume received by the beneficiary SMEs / EU guarantee cap amount) is nearing 36[5]. By the end of the third quarter of 2015, 377,502 SMEs have received financing supported by SMEG 07 Guarantee Facility, through 457,954 loans.

The impact extends to the real economy as the investments into SMEs support growth and employment opportunities.

Furthermore, the relevance of the SME Facility under CIP as assessed by the beneficiary SMEs is significant[6] . 46% SMEs stated that the EU financing scheme was the only option available for them to get financing, Further, 18% stated that without the EU support they would have received only part of the funding needed and 42% stated that the EU support helped them to get additional finance. Finally, 64% SMEs emphasized that EU support was crucial to find the finance needed.

ii) Under **High Growth and Innovative SME Facility** (GIF) – the support is much more focused and targeted on a relatively limited number of companies that have the potential to achieve high growth, and to bring innovation to the market

As of end September 2015, EUR 555 millions of EU resources has been invested in venture capital funds, catalysing a total investment of EUR 3.1 billion (associated GIF leverage:5,5). Consequently, 505 such investees (SMEs) had received equity finance facilitated by this financial support. Such SMEs experience a larger growth in sales, assets and employment than those not backed by an equity or venture capital fund and are also less likely to default than other companies.

iii) Generally speaking, although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal

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[5] Source: EIF SMEG 2007, Quarterly Report issued on 29/12/2015 with data as at 30/9/2015.

[6] Source: Centre for Strategy & Evaluation Services (CSES) LLP, Final Evaluation of the Entrepreneurship and Innovation Programme, April 2011. The figures in the text are the results of a telephone survey conducted within the evaluation. For the Guarantee Facility, in total 256 beneficiaries were interviewed of which 206 receiving support under the loan window and 50 under the micro credit window. In the case of High Growth and Innovative SME Facility, in total 53 beneficiaries were interviewed.

market situations, meaning by far the largest part of financing is provided by banking and finance market players), those programmes contributed very positively to the development and sustainability of EU SMEs throughout 2015. As of 30th September 2015, the estimated number of jobs created under CIP (both SMEG 07 & GIF) is 377,974[7] and the number of employees in CIP-supported SMEs (under both SMEG 07 and GIF) as at portfolio inclusion date is nearly 1,311,000[8] for the period 2007-2013[9].

Apart from operational management of the existing programmes, we contributed heavily to the new 2014-2020 framework for financial instruments (design, implementation), by

- *chairing the informal coordination mechanism of the "Financial Instruments Interservice Expert Group (the FIIEG)", foreseen in the "Communication on Innovative Financial Instruments" adopted on 19th October 2011 (COM(2011)662);*
- *contributing largely to the design of the SME Initiative;*
- *establishing the EFSI;*
- *contributing to the design of a number of specific financial instruments in various policy fields: We developed in 2014 the Template for Delegation Agreements and set it at the disposal of policy DGs in order to enable them to negotiate their own Delegation Agreements with their relevant International Financial Institutions (IFIs), while ensuring a cross-DGs consistency among the various programmes and compliance with the Financial Regulation; subsequently, we took in 2015 a large part in the effective drafting/reviewing/negotiation of the DAs, notably for COSME, Horizon2020, ERASMUS+, EaSI and CCS.*

In 2015, we also supported the implementation of EU Financial Instruments, by streamlining and harmonising rules and procedures in the Financial Instrument Inter-service Expert Group (FIIEG, which is chaired by us) and by supporting partner DGs in negotiating their financial instruments (in particular the Connecting Europe Facility – CEF, COSME, InnovFin, EaSI, PF4EE, NCFF and CCS), overseeing their implementation through the Steering Committees, as well as supporting involved DGs in negotiations on Securitisation Instrument under the SME Initiative.

As regards on-going audits by the Court of Auditors in 2015 related to the Financial Instruments, see Section 2.2, and the evaluation on Project Bond Initiative, see section 1.19 and Annex 9.

1.12 Specific Objective - To promote the EU interest in the governing bodies of the EIB/EIF and to strengthen the EU-EIB/EIF co-operation to align EIB/EIF lending with EU policy priorities

As a representative in the Board of the EIB, the Commission exercised control over the EIB together with 28 MS, who are the EIB's shareholders. The EIB continued its important catalytic role to resolve the current investment and competitiveness challenges in the EU as required in 2012 by the EU MS by increasing the EIB's paid-in capital by EUR 10 billion. In March 2015 the EIB announced that it had delivered early on the objectives of the Growth and Employment Facility, based on typical co-financing rates unlocking a total investment in the range of EUR 180 billion to promote sustainable growth and jobs.

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[7] Estimate based on the methodology outlined in the Final Evaluation of the Entrepreneurship and Innovation Programme, Final Report, April 2011

[8] Source: EIF Quarterly Report as of 30/9/2015

[9] Figures provided run from the start of the implementation of the programme until 30th September 2015.

Specifically, the Commission was informed that EIB expects its lending inside the EU for 2015 to be in a range of EUR 64-71 billion, contributing innovation and skills, SME/access to finance, resource efficiency and strategic infrastructure.

The EFSI constitutes the first pillar of the Investment Plan for Europe. It ensures efficiency of public spending by providing a guarantee provisioned by EU budget and EIB resources, which enables the EIB to take more high risk and mobilise additional public and private investments into the real economy promoting growth and jobs. EFSI is in place since the summer of 2015 (entry into force of the EFSI Regulation on 4th July 2015). A significant number of EFSI projects have already been approved by the EIB Group for a total investment value of about EUR 50 billion (as of January 2016): EUR 25 billion for Infrastructure and Innovation investments and EUR 25 billion in favour of SMEs.

In line with Article 19 of the EIB Statute, the EIB shares information on proposed operations with the Commission in an early stage of project identification, after which ECFIN ensures coordination with Commission services and European External Action Service (EEAS) to ensure alignment with EU policies of EIB operations. In 2015, 436 cases were treated, compared to 421 cases in 2014.

1.13 Specific Objective - To ensure sound and efficient management and follow-up of financial operations

For the treasury and asset management activities, the result achieved in general terms was to generate returns in line with appropriate benchmarks, while maintaining a high degree of stability and security and after ensuring there is sufficient liquidity to meet the obligations payable out of these funds.

In 2013 the Council adopted an Implementing Decision extending the maturities of the existing EFSM loans to Ireland and Portugal up to a maximum average maturity of 19.5 years. The first EFSM loan was due from Ireland in December 2015 and the country requested it to be extended. The EUR 5 billion loan was extended in three tranches with maturities of 8, 14 and 20 years amounting to EUR 2 billion, 1 billion and 2 billion respectively.

DG ECFIN continues to administer the Greek Loan Facility.

1.14 Specific Objective - Macro-financial assistance, including to Ukraine

We have a specific objective to provide MFA to third countries in resolving their balance of payment crises and restoring their external debt sustainability, with a special emphasis on Ukraine. It relates to the general objectives of a deepened, efficient and fair EMU and to promoting prosperity beyond the EU. The specific objective has result indicators relating to the current accounts, external debt and official foreign exchange reserves of the assisted countries. As described in the related impact and result indicators, some of the countries benefiting from MFA are making progress towards macroeconomic stabilisation and the restoration of a sustainable external financial situation over the medium-too longer term, whereas others require further efforts to be made. As with all aspects of this objective we contribute to their attainment but is not the main actor; the countries affected play the primary role and are in turn affected by external economic and other factors. We are also tasked with providing loan funding for these programmes and it has provided payments on time at reasonable cost.

Following **Ukraine**'s request in late 2014 for additional financial assistance as a result of the deterioration of its macroeconomic situation, in January 2015 the Commission proposed a new MFA operation of up to EUR 1.8 billion with a view to alleviating the country's external financing needs. This operation – the third one to be implemented in

Ukraine since 2014 – complemented existing MFA programmes of EUR 1.6 billion based on decisions from 2002 (EUR 110 million), 2010 (EUR 500 million) and 2014 (EUR 1 billion). The Commission proposal was adopted by the co-legislators in April, and the first tranche of EUR 600 million was disbursed in July. The remaining EUR 1.2 billion is expected to be made available during the course of 2016 in two equal tranches of EUR 600 million, subject to successful implementation of the economic policy and financial conditions agreed with Ukraine, and a continuous satisfactory track record of implementing the IMF programme. In addition, in April 2015 the Commission disbursed the third and final tranche of EUR 250 million in loans from the first MFA operation implemented in Ukraine since the onset of the crisis.

In 2015, the Commission made important progress in the implementation of MFA operations in **Georgia** (i.e. EUR 46 million, of which EUR 13 million in grants and EUR 10 million in loans were disbursed in 2015), **Jordan** (EUR 180 million in loans, all disbursed in 2015), **Tunisia** (EUR 300 million in loans, of which EUR 200 million were disbursed in 2015) and the **Kyrgyz Republic** (EUR 30 million, of which EUR 5 million in loans and EUR 10 million in grants were disbursed in 2015). The operation in Jordan was fully disbursed in 2015, whilst further disbursements are expected to be made under all other operations in 2016, as outlined in the relevant programme statement annexed to the 2017 draft budget.

As described in the related impact and result indicators, some of the countries benefiting from macro-financial assistance are making progress towards macroeconomic stabilisation and the restoration of a sustainable external financial situation over the medium-too longer term, whereas others require further efforts to be made

In the light of the volatile situation in the Neighbourhood and the weak economic environment in several of our partner countries, we have continued monitoring closely macroeconomic developments with a view to assessing the potential need for additional MFA support, based on requests received to date or expected to be received imminently. This preparatory work has concerned, in particular, Tunisia – for which a Commission proposal for a second MFA operation should be finalised in early 2016 – as well as Moldova and Jordan.

During 2015, an evaluation of MFA operations in Bosnia-Herzegovina (BiH) was completed. The main conclusion of the evaluation was that the MFA had a positive impact on BiH's economy and it also contributed to promoting structural reforms in the country. The positive - albeit rather limited - contribution to macroeconomic stability in BiH was primarily because of the small size of the operation relative to the country's GDP (the MFA corresponded to 0.7 per cent of BiH's GDP in 2013). As regards structural reforms, overall, it was concluded that MFA conditions were relevant and addressed important issues, but not the most pressing areas requiring reforms.

From the perspective of the BiH national authorities, the main attractiveness of the MFA was the cost and tenure of financing provided by the instrument. The MFA allowed the authorities to reduce its costs of debt servicing by an estimated EUR 12 million over the period 2013-2015, which would have to be otherwise been borne by Republic Srpska, the Federation and the State. The MFA also played a discernible role in reinforcing the reforms promoted by the IMF. In addition, given BiH's status as a potential EU candidate country, the MFA demonstrated the EU's political commitment and solidarity towards BiH in times of crisis. See also:
http://ec.europa.eu/dgs/economy_finance/evaluation/pdf/ex_post_evaluation_of_mfa_bosnia_summary_en.pdf

As regards on-going audits by the Court of Auditors in 2015 related to EU assistance to Ukraine and EU assistance to Moldova, see Section 2.2.

1.15 Specific Objective - To maintain and strengthen strong cooperation and liaison in the external field with EIB, EBRD and other IFIs

With our continuous promotion of and support to DG NEAR and DG DEVCO on use of financial instruments – the use of financial instruments as percentage of total grants approved for blending increased from 13% in 2014 to 31% in 2015. In 2015 EUR 201 million was approved for risk capital and guarantees out of EUR 654 million in total grants approved by the blending facilities respective boards (i.e. for TA, investment grants and risk capital/guarantees). In 2014, this was EUR 58.5 million for financial instruments out of a total that year of EUR 445 million in grants for blending.

Following the Union's participation in the 2011 capital increase of the EBRD, the Commission was required to present to the European Parliament and the Council a report assessing the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood. Based on an external evaluation, the Commission concluded that overall both IFIs are well aware of their comparative advantages in terms of their respective mandates, lending models and pricing policies and in general make good use of such comparative advantages. Notwithstanding the overall positive conclusions, the EC recommends that EIB and EBRD further operationalise their cooperation, also in Investment Platforms under EFSI, that they increase the scope of the currently agreed mutual reliance initiative, that they enhance staff incentives and Key Performance Indicators towards the achievement of added value and quality of operations, and that they further improve their product range, in particular to include capital market based instruments, to attract institutional investors and commercial finance.

In 2015, the Guarantee Fund for External Action, whose function is to cover the risk of loans and loan guarantees to third countries, was adequately managed and provisioned on the basis of its assets and contingent liabilities. As specified in the relevant programme statement annexed to the 2017 draft budget, the provisioning for 2017 will be EUR 240,540,249.64. Outside the EU, the EIB provided loans partly enabled by the Guarantee Fund for external actions provisioning the EU guarantee as per the external lending mandate of the EIB. Of the EUR 27 billion envelope, until end 2015 the EIB so far signed 17% and committed 34% in approvals.

1.16 Specific Objective – EU Representation in G7, G20 and IMF

We coordinated the EU positions in the G20 process on economic and financial issues. We contributed to the successful participation of the Commission President and Commissioner Moscovici at the G20 Summit in Antalya, which achieved important results including a strong Antalya Action Plan and key outcomes on topics such as investment, international tax transparency, and financial regulation. We ensured an effective representation of the Commission at four G20 Finance Ministerial meetings in 2015. We also coordinated economic and financial issues dealt with by the G7, contributing to a successful G7 Elmau Summit and G7 Finance Ministerial meeting.

We coordinated common EU positions and statements in the IMF to advance the EU policy agenda. In 2015, we produced a number of common messages on IMF policy, including governance, resources, and multilateral surveillance as well as country programmes. We also prepared the Spring and Autumn (Annual) IMFC meetings in Lima and Washington.

We conducted economic dialogues with several G20 countries (China, Japan, India, Australia, Mexico, and South Africa), the Gulf Cooperation Council, EFTA, EU's enlargement countries as well as EU's neighbourhood countries. These dialogues create an opportunity to discuss and address common economic challenges.

We also provided economic analysis and policy advice in several areas of EU's external action, which in 2015 included inter alia climate finance and development policies in preparation of international conferences at the UN, as well as trade and investment analysis. In October 2015, the Commission also published a communication and a proposal for a Council decision in order to strengthen the external representation of the euro area, in particular in the IMF.

1.17 Specific Objective- Enlargement and Neighbourhood policies

In order to support the enlargement process, we pursued and continued to sharpen economic and fiscal surveillance of enlargement countries. This included, *inter alia*, the preparation of analytical assessments of the countries' medium-term economic and fiscal programmes with stronger emphasis on external vulnerabilities and structural obstacles to growth. For the first time, this process led to more targeted policy guidance for all enlargement countries, adopted by the Joint ECOFIN Council. We contributed to the 2015 enlargement package and refined our analysis for assessing the countries' progress in complying with the Copenhagen economic accession criteria. Our surveillance of candidate countries also included monitoring of economic developments and full-fledged candidate countries' forecasts (winter, spring and autumn) as well as providing economic analysis of – and policy advice to the enlargement countries, also in the context of regular economic dialogues which were held with all countries.

In 2015, we continued supporting macroeconomic and financial stability in the EU's Neighbourhood through economic analysis, policy advice and, where necessary, financial assistance. Our regular economic dialogues – which in 2015 were held with most Neighbourhood countries – provided a useful venue to engage with our partner countries on their macroeconomic policies and to promote structural change and sustainable economic development. As a complement to our regular surveillance tasks, MFA contributed to addressing the macro-financial stabilisation needs of countries experiencing serious balance of payments tensions, whilst promoting key structural reforms. During the course of 2015, we made important progress in the implementation of five MFA operations referred to above.

1.18 Specific Objective - To contribute to the co-ordination of economic and financial policies in the EU through the efficient functioning of the EFC, EPC and EWG

In 2015, the Secretariat of the EFC, the EPC, and the EWG organised 12 regular meetings of the EFC and EWG, 10 extraordinary meetings of the EWG, 42 meetings of the EFC/EWG sub-committees and working groups, 11 meetings of the EPC, and 26 meetings of the EPC working groups (101 meetings in total).

The Treaty (Art. 114) describes in detail the mission of the EFC (Economic and Financial Committee). The Committee is inter alia the main forum for the preparation of discussions and decisions at ministerial level in the ECOFIN and, through the Eurogroup Working Group (EWG), in the Eurogroup (EG). The EFC meets regularly, and in recent years at a markedly increased frequency in EWG configuration to prepare specifically the Eurogroup files, reflecting notably policy requirements to deal with the euro area sovereign debt crisis. The EPC (Economic Policy Committee) is a sister committee concentrating on specific areas of competence decided by the Council. Both committees are assisted in their tasks by a number of working groups. The EWG is supported by the Task Force on Coordinated Action (TFCA), a sub-structure that meets at high frequency and at short notice to work on highly technical issues related to crisis management and more recently some pressing Banking Union issues. The Commission (DG ECFIN) not only provides the administrative and logistical support to both Committees through the Secretariat of the EFC/EPC/EG/EWG, but is also represented in both Committees and contributes to their activities to a considerable extent.

The objectives as set out in the Work Programmes of the EFC, the EWG and their subcommittees, working groups and task forces were fully met, and included the establishment of a new HLWG on the Regulatory Treatment of Sovereign Exposures as well as a Task Force on euro coin issues. Both in terms of meetings (101 versus 96), teleconferences (179 versus 104) and notes (850 versus 606), the result indicators exceeded the 2014 outcome. Since the stakeholder survey of 2012, the level of satisfaction of EFC/EPC members with our work and output has not been tested. An EFC secretariat initiated members' survey, however, shows that members are largely satisfied with the way in which the work programme is being executed.

Within this framework, the main areas of activities in 2015 focussed on the coordination of fiscal, financial and economic policies in the crisis. A lot of work was done on the adjustment programme packages for two Euro area MS, particularly for Greece, as well as on financial stability issues and preparation and implementation of the Banking Union as well as preparation of the CMU and investment plan. Other work streams included work on the setting up a bridge financing arrangement to the SRF in the TFCA; international economic matters in relation with the EFC Subcommittee on IMF and related issues; structural reforms and economic policy issues; the EU semester; economic situation and macroeconomic policy issues in the preparations of the EFC and EWG meetings; fiscal policies and fiscal surveillance; exchange rate developments; issues related to the international financial institutions; preparation of EU position for the G20 meetings; financial assistance for EU countries; ERM II matters; horizontal issues related to the Stability and Growth Pact; macro-financial assistance to third countries; international agreements and questions related to the euro; euro-coin issues; EU sovereign debt markets; EMU economic governance following the Five Presidents' report;

international climate finance matters; output gaps; quality of public finances; ageing populations and sustainability; statistical issues; and regulatory treatment of sovereign exposures.

1.19 Example of EU added value

The Project Bond Initiative

The Project Bond Initiative (PBI) is an example of an intervention that addresses a specific market failure and delivers meaningful EU-wide added value that would not be achievable in the absence of the initiative.

The external evaluation of the Pilot Phase of the PBI was finalised in December 2015 (see in details Annex 9). The evaluation considered a range of capital infrastructure projects supported between 2012 and July 2015 and concluded that the PBI responded to a clear market failure caused by a decline in private investment in infrastructure projects. The PBI pilot promoted private sector financing of major infrastructure works without increasing public indebtedness. At the same time, the initiative also supported strategically significant projects that contribute to the achievement of EU2020 priorities. In concluding that the PBI demonstrates real EU added value, the evaluation highlighted the following key achievements and results of the PBI:

- *The PBI was effective in facilitating the development of the project bond market in the EU and in supporting priority projects with a EU-added value (**effectiveness**)*
- *The EU contribution was proportionate to the number of projects supported and the achieved /expected leverage effect, while the quantitative targets of the initiative in terms of number of projects supported (i.e. 7 signed transactions, which is in line with the initial target set by the Pilot phase of 5 to 10 projects) and the leverage achieved have been met or surpassed. The leverage achieved on the Project Bond Credit Enhancement transactions closed so far with the available EU contribution is 12.9, while the expected leverage of all Project Bond Credit Enhancement transactions, including those closed or expected to be closed in 2016 before the end of the pilot phase of the PBI with the existing EU budget support is 18.6 (EUR 4,270m in capital cost /EUR 230 m of EU budget contribution) which is fully in line with expectations. The overall expected leverage, which also includes projects signed at EIB own risk, i.e. without the support of the EU budget, is 30.3 (EUR 6,961 m in capital cost /EUR230 m of EU budget contribution) and well above expectations (**efficiency**).*
- *PBI responded to the market needs at the time of its inception and was relevant in terms of achievement of objectives of developing capital market financing for infrastructure projects and helping financing certain priority projects of EU added value (**relevance**).*
- *The risk-sharing arrangement between the EC and the EIB as well as the EU contribution provided were crucial to develop the initiative, allow the EIB to target riskier and larger transactions and to widen the investor base. The PBI demonstrated EU value-added and proved to be additional to other risk sharing facilities both at EU and national level, and to other forms of credit enhancement or insurance as it offered distinctive advantages. The PBI was additional as an alternative source of financing, which was particularly relevant on certain projects (**EU added-value and additionality**).*

Taking into account the results of the evaluation and the EU 2020 objectives, the Project Bond credit enhancement product is clearly needed going forward.

A number of the recommendations formulated by the evaluation point to the fact that the market conditions prevailing at the time of the launch of the PBI have evolved, and hence suggest various improvements in the design of the product or a wider sector/

geographic coverage. The full stage of the initiative will take account of these recommendations when fine-tuning the design of successor products to the PBI. New financing tools such as the CEF Debt Instrument and the European Fund for Strategic Investments, which include the project bond credit enhancement ('PBCE'), have already been developed to respond to these market needs. By way of example, new products tailored to the specific needs of the CEF-eligible sectors are already under preparation by the EIB, while new tools for pooling together broad band investments via funds or risk sharing arrangements with financial intermediaries are under development.

1.20 Examples of economy and efficiency

(i) Financial Instruments

Financial instruments provide a significant leverage over the budgetary resources. 1 EUR spent on financial instruments supports multiple euros of financing to final beneficiaries (see above under part 1.11: e.g for SMEG 07, the leverage is nearing 36) (**efficient use of budgetary resources**).

(ii) EFSI

- *Only limited staff costs as the implementation is fully delegated to the EIB Group (**economy**).*
- *EFSI has critical mass and leverages as well as a guarantee provided by the EU budget. The roll out was fast and a sizeable volume of operations has been reached already by end 2015. For example EIF has in fact already achieved 1/3 of the total expected volume of investment for the SMEW in the few months of implementation since the EFSI agreement was only signed in July 2015 (**efficiency**).*
- *The EU guarantee under EFSI provides a significant leverage over the budgetary resources. Every EUR committed on EFSI supports multiple euros of financing to final beneficiaries (e.g SMEs, RDI intensive companies). It is estimated that EFSI has a leverage of 15 times the risk bearing capacity provided by the EU budget (EUR 16 billion) and the EIB (EUR 5 billion). In 2015, the leverage achieved was higher than 15. The leverage achieved is based on estimated volumes of financing established according to the methodology paper on Key Performance Indicators/Key Monitoring Indicators which was approved by the ESFI Steering Board. The leverage actually achieved can only be comprehensively assessed at the end of the initiative (**leverage**).*

2. MANAGEMENT AND INTERNAL CONTROL

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

Examples:

- the reports by AOSDs;

- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;

- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;

- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;

- the reports of the ex-post supervision or audit;

- the opinion of the internal auditor on the state of control, and the observations and recommendations reported by the Internal Audit Service (IAS);

- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG ECFIN.

This section reports the control results and other relevant elements that support management's assurance. It is structured into (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system, and resulting in (d) Conclusions as regards assurance.

2.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. The DG's assurance building and materiality criteria are outlined in Annex 4. Annex 5 and Annex 10 outline the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

Coverage of the Internal Control Objectives and their related main indicators

The **scope of the assurance** provided by the Director-General extends to all elements showing under Annex 3: budget expenditure and income; financial assets; off-balance sheet disclosures. This assurance because of the various management modes and operations is a mix of direct assurance and third party assurance

The following overview table illustrates more in detail the scope of this assurance – it also provides references to the associated Internal Control Template (ICT) information:

In EUR million	Expense – Table 2 in Annex 3	Revenue – Table 7 in Annex 3	Financial assets & cash – Table 4 in Annex 3 (AI3 AI4 AII3 AII7)	Financial income (-) and costs (+) – Table 5 in Annex 3 (II121 II28 II29)	Guarantees received (+) or given (-) – Table 5bis in Annex 3 (OB1 OB2)
Guarantee Fund for external actions (ICT 4)	144,4 (provisioning)	-	2086,0	-40,1 and +68,4	-19449,6
European Fund for Strategic Investments (EFSI (ICT 5))				-1,4	-201,9
Financial instruments and Pre-accession Technical Assistance (ICT 3)	103,2 (CIP and MAP), 9,1 (MFF, SMEFF etc.)	47,9 (interests and unused funds)	922,9	-6,4 and +19,8	
Assets under treasury management (ICT 1)	-	0,3 (BUFI H20H FP7 IT fees)	2881,4 (BUFI) 1701,2(ECSC) 6,2 (ATOM, BOP, EFSM, MFA)	-7,3 and -1,7 (BUFI) -49,5 and +41,4 (ECSC)	-
Outstanding loans (incl. ECSC loans) (ICT 1)		38,6 (retained earnings)	Loans: 56880,5 (EFSM, BOP, MFA, Euratom, ECSC)	- 1665,2 and +1 668,0 (EFSM, BOP, MFA, Euratom, ECSC)	301,1 (Euratom)
Equity Investments (EBRD, Marguerite			EBRD: 187,8 Marguerite Fund: 50,3	EBRD: - Marguerite Fund: -	-

Fund)					
EIF capital and dividends	50,0	5,7	491,5	-30,5	-
Macro-financial assistance (MFA (ICT 6))	23,0				
Grants, purchases and administrative expenses	24,0	-	-	-	-
Total	**353,7**	**92,5**	**65207,8**	**-1800,4 and 1795,9**	**301,1 and -19651,5**

The overall conclusion table below summarises all control results. The main benefit of controls is the achievement of the control objectives e.g. error-free financial statements; legally compliant transactions. Some control objectives are explicitly provided for all DG's such as time-to-pay (all); time-to-inform (grants); time-to-contract (grants). DG ECFIN considers that these controls will be cost-effective if their costs are considered acceptable by management and if periodically these controls are re-assessed, improved made less costly and/or more risk differentiated. Still, some controls have to be exercised irrespective of their historic outcome; these controls are identified through periodic risk-assessments.

DG ECFIN uses the following definitions of a positive conclusion for the five Internal Control Objectives and their associated indicators:

- *Residual Error Rate*: *below 2%*
- *Cost-Effectiveness: ratios do not increased versus 2014*
- *Anti-Fraud Strategy: no qualification to the Declaration of the Assurance;*
- *Safeguarding of assets: adequate return with no or minimal breaches to assets guidelines;*
- *Reliability of Reporting: no material error and no reservations.*

In EUR Million	Expenditures under direct management	Expenditures under indirect management	Financial assets and cash (managed and supervised	Revenue
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH)), purchase and administrative expenses	24,0			
MFA	23,0			
Guarantee Fund for External actions	144,4		2086,0	
Financial Instruments and Pre-Accession Technical Assistance		112,3	922,9	47,9
EIF capital and dividends		50	491,5	5,7

Equity investments (EBRD, Marguerite Fund)			238,1	
Off-budget management (loans and assets under financial management)			61469,3	38,9
Total	**191,4**	**162,3**	**65 207,8**	**92,5**
Internal Control Objectives- Indicators	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Safeguarding of assets/Reliability of Reporting[10]	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy
Internal Control Objectives – conclusions	Positive	Positive	Positive	Positive
Negative opinion from auditors	No	No	No	No
Reservation	No	No	No	No

At DG ECFIN, financial operations relate to one of three categories: payments under direct budget management; payments under indirect budget management; off-budget management. Because each of these categories has its own specificities, inherent risks, and assigned staff, our integrated control system use these categories as building blocks.

More specifically, direct management will include expenditures for grants, procurements and administrative expenses, as well as the provisioning of guarantee funds. Indirect management will include the provisioning of trust accounts and also more broadly the spending programmes entrusted to other entities. Off budget management will include assets managed directly by DG ECFIN as well as assets under DG ECFIN's supervision and comprises treasury and borrowing and lending obligations. Assets are to be understood in a broad sense including contingent assets (and liabilities); as well as financial income (and costs) linked to the assets.

Payments under direct management are processed against Title 01 Chapter 01 (Administrative expenditures); Chapter 02 (Economic and monetary union); Chapter 03 (Macro-financial assistance and Provisioning of the Guarantee Fund); Chapter 04 European Investment Advisory Hub/ European Investment Project Portal (EIAH/EIPP); and Title 24 Chapter 01 (Administrative expenditure) and Chapter 03 (Protecting the euro against counterfeiting).

Payments under indirect management are processed against Title 01 Chapter 04 (Participation in the EIF and Completion of SME's programmes); and Title 22 Chapter 02 (Completion of former pre-accession assistance).

Off-budget management operations are not processed against a given title by definition.

The details of the assurance of the achievement of internal control objectives related to these three internal control systems are annexed (see Annex 10).

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[10] These internal control objectives apply to financial income and costs and off-balance sheet disclosures as well.

Legality and regularity

DG ECFIN has set up internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account where necessary the multiannual character of programmes entrusted to other entities as well as the nature of the payments concerned.

Based on control results and all other relevant information available, the Authorising Officer by Delegation (AOD) can conclude that for each segment of expenditure with a given risk profile and subject to the same or a similar control system no reservation is to be disclosed.

According to the materiality criteria (see annex 4), the target error rate is 0% for operations with low inherent risks (MFA, expenses of an administrative nature, provisioning of funds) and 2% for action grants with the reimbursed cost mechanism and entrusted entities. The achieved error rates are measured through exceptions and non-compliance events (ex-ante controls) for direct management (complemented where necessary with the results of ex-post controls) and third-party assurance for indirect management.

Based on the controls results and on the inherent risks of the various transactions, the error rates for each key segment (or sub-segment) are as follows:

- *For MFA grants: 0% - MFA grants are not grants in the usual sense with eligible costs but a budget support mechanism to the countries included in basic acts.*
- *For BCS, PERICLES and EIAH grants: 1% - A large share of these grant payments were pre-financing payments*
- *For other administrative expenses: 0% - Controls aim at systematically detecting and preventing breaches of legality and regularity; the first measure of the error rate is therefore the one resulting from the analysis of the recording of exceptions: control overrides and non-compliant events. The analysis of these exceptions shows that the pre-set target of 0 % was complied with.*
- *Guarantee Fund for External Actions: 0% - This percentage refers to the replenishment of the fundThis percentage refers to payments at the level of the final beneficiaries.*
- *Entrusted entities for financial instruments: 0%-2% - These percentages refer to payments at the level of the final. The range shows the minimum and maximum values of the estimated error rate. However, the actual amount, which was recovered based on actual checks undertaken is well below the maximum value of the estimated error interval.*

The internal control strategy at DG ECFIN foresees the implementation of further controls during subsequent years aimed at detecting and correcting errors only if such a procedure is cost-effective. Because the error rate has been consistently low and therefore financial corrections resulting from large scale audit missions would also be low, management has decided not to invest significantly in ex post controls. This is why an adequate, reliable and prudent approach is to consider that there is no adjusted corrective capacity for 2015 payments.

Given the materiality target threshold at DG ECFIN of 2% management concludes that no reservation is needed and that the internal controls systems implemented provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions.

Conclusion: DG ECFIN's estimated overall amount at risk[11] on an annual basis at 31st of December for the 2015 payments is within a range of EUR 0,1 million and EUR 3,3 million. This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year (EUR 353,7 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment (to the final beneficiary for financial instruments) is made. The conservatively estimated future corrections for those 2015 payments made are EUR 0. Such an approach is reflected in the historical data available. While historical data provided by DG BUDG shows an overall corrective capacity of 0.28% which is already meagre the ex post corrective capacity i.e. the corrections brought after the final payment[12] is down to 0.14%. Furthermore, this is due almost exclusively to data from 2009; over the past six years corrections brought amount to less than 0.02%.

DG ECFIN	Scope: payments made (Financial Year 2015; EUR million)	Error Rate (%)	Amount at risk (Financial Year 2015; EUR million)
Activity-level	as per AAR annex 3, table 2	error rate	= (2) x (3)
Direct Management			
MFA	23,0	0%	0.0
BCS PERICLES EIAH grants	9.5	1%	0.1
Other administrative expenses	14.5	0%	0.0
Guarantee Fund for external actions	144.4	0%	0
Indirect Management			
Entrusted entities for financial instruments	162.3[13]]	0%-2%	0-3.2
Off-budget assets management	N/A	N/A	
Weighted average error rate and implied amounts at risk	**353.7**	**0%-0.9%**	**0.1-3.3**

NB: no adjusted corrective capacity

Efficiency and Cost-effectiveness

Based on an assessment of the most relevant key indicators and control results, DG ECFIN has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion. DG ECFIN's management considers that the level of effectiveness, efficiency and cost-effectiveness of the controls operated is adequate and will monitor cost-effectiveness over time

While the effectiveness of the controls is evidenced by the error rate, the cost-effectiveness of the controls is measured by comparing the costs of the controls with the amounts paid. Because DG ECFIN is essentially a policy DG, pricing the various stages of procurement and grant procedures is of little value. Furthermore, the approach taken is to consider that transactions were subject at a given point in time to a procurement or grant procedure and that rather than comparing the costs associated to the call for tenders/proposals with the amount of these calls, an aggregate indicator will be used. This aggregate indicator will therefore be the costs of controls irrespective as to whether these controls apply to a call, a contract, a commitment, a payment etc. with these costs

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[11] In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

[12] The data from DG BUDG includes items such as credit notes for invoices which are corrections before the payments.

[13] Including EUR 50 million for the EIF capital increase

then divided by the yearly payments made.

With respect to the minimum set of cost-effectiveness indicators, this translates into a single indicator: the overall costs of controls (total cost of controls of process / total expenditure executed during the year (the payments made)). This single indicator applies not only to payments for grants, procurement and expenses of an administrative nature but also to the provisioning of funds and of trust accounts held by entrusted entities. However, for the indirect management of spending programmes, the indicator will measure the internal and supervision costs in comparison to budgeted programmes.

The overall cost-effectiveness of controls in 2015 on grants, procurement and expenses of an administrative nature as measured by the proportion of overall cost of control over the related expenses lead us to consider that the controls are sufficiently efficient and cost-effective. Compared to 2014, the cost ratio has remained stable at around 13%. However, the cost ratio to be used as of 2015 is different because in 2015 grants for MFA, PERICLES and the EIAH were awarded whereas such transactions did not occur in 2014. This newly computed average cost ratio is 7%. In addition, the full spectrum of amounts paid includes also funds remitted to guarantee funds and trust accounts. This results in an average cost-effectiveness ratio for the whole ECFIN budget of 0.9%.

The overall cost-effectiveness of controls in 2015 on Financial Instruments managed via international financial institutions, as measured by the proportion of overall cost of control over the total of the spending programmes lead us to consider that the controls are sufficiently efficient and cost-effective. In all these cases, our supervision arrangements are based on the principle of controlling with the relevant entities. Compared to 2014, the cost ratio shows an improvement from EUR 961 per EUR 1 million to EUR 709 per EUR 1 million.

With respect to efficiency, three main indicators are used: time to pay; time to inform; and time to grant.

In 2015 the average time-to-pay with suspension was 15,0 days (16,3 days in 2014). The periods specified in article 92.1 of the Financial Regulation were complied with and less than 2,5% of the transactions were in excess of the time-limits.

The average time-to-inform with the time period starting from receiving the estimated budget and ending with sending the draft grant agreement for signature was 36 days for specific grant agreements (SGA). The average time-to-sign with the time period starting from sending the draft grant agreement for signature and ending with signing the grant agreement at Commission level was 9 days for SGA. With respect to the framework partnership agreements (FPA), time-to-inform was 24 days and time-to-sign was 2 days.

The periods specified in article 128.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants) were therefore fully complied with.

Through the periodical re-assessments in 2013 and 2014 actions and measures were taken to improve the cost-effectiveness of controls – based on risk assessments. In 2013, for low-risk transactions (de-commitments, pre-financing payments and EUR 15 000 payments), a new and shorter financial circuit was used with an authorising officer in the finance unit combining the verifying and authorising duties. In 2014, a risk scoring system was implemented to determine for each financial transaction whether basic checks or full checks should be performed by the verifying agents. This risk scoring system is based on the management mode, the nature of the transaction and financial thresholds. No further changes were brought in 2015 pending the major reorganisation scheduled for 2016.

COSTS-BASED EFFECTIVENESS INDICATORS FOR EXPENDITURES – DIRECT MANAGEMENT(including provisioning of funds) and INDIRECT MANAGEMENT (provisioning of entrusted entities)				
Nº	**Type of expenditure or management mode or ICS**	**Indicator (all stages combined)**	**Cost-Effectiveness Ratio**	**Description**
	Internal Control System	**Overall cost of control[14]**	**Overall cost of control /Expenses (%)**	**Total cost of controls of process / total expenditure executed during the year (payments made)**
1	MFA grants	Full cost with 7% overhead	1%	EUR 0.2 million (/EUR 23,0 million
2	BCS PERICLES and EIAH grants	Full cost with 7% overhead	14%	EUR 1.3 million/EUR 9,5 million[15]
3	Other direct management expenditures	Full cost with 7% overhead	13%	EUR 1.84 million/EUR 14.5 million[16]
4	Provisioning of funds	Full cost with 7% overhead	0%	EUR 0.0 million/EUR 144.4 million
5	Provisioning of entrusted entities	Full cost with 7% overhead	0%	EUR 0.0 million/EUR 162.3 million

COSTS-BASED EFFECTIVENESS INDICATORS for spending programmes managed by entrusted entities – INDIRECT MANAGEMENT				
Nº	**Type of expenditure or management mode or ICS**	**Stage**	**Annual Cost-Effectiveness Indicators**	**Description**
1	Financial instruments	overall indicator	overall supervision costs/total budget of managed programmes 0,07% or EUR 709 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC)+ management or administrative fees paid / total budget of managed programmes EUR 1.365.613/EUR 1.926.860.000

[14] No indirect costs: operational costs show under direct costs: no specific IT systems for controlling tenders, calls, commitments or payments, limited ex post controls for direct management; limited legal assistance

[15] FTE's (Financial initiating agent(FIA)/ Operational initiating agent (OIA)/ Verifying agent (VA)

[16] 13 FTE's (FIA/OIA/VA)

TIME-BASED EFFICIENCY INDICATORS				
N°	**Type of expenditure or management mode or ICS**	**Stage**	**Efficiency indicators[17]**	**Description**
1	all management mode and type of expenditure taken together	up to payment	time to pay (Art. 92.1FR) 15,0 days	one indicator for all management modes taken together (as per annex 3)
2	BCS PERICLES EIAH grants[18]	up to legal commitment	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2FR) SGA's 36 days[19] FPA's 24 days	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2 FR)
2	BCS PERICLES EIAH grants[20]	up to legal commitment	Average time to sign (Art. 128.2FR) SGA's 9 days[21] FPA's 2 days GA's N/A	average time to sign agreements or to notify grant decisions (Art. 128.2FR)

Revenues

Revenues have a more limited scope of assurance than expenses. For obvious reasons, the intended purpose principle in the declaration of assurance is not applicable (that principle will apply to the corresponding expenses). Nevertheless, the control system applied to revenues is very robust: the vast majority of revenues are recoveries based on balance sheet items from entrusted entities which are audited and certified (e.g. interests, retained earnings). In addition the authorising officer by delegation has no counter-evidence in that respect. Therefore, the control objectives of the reliability of the financial reporting as well as the legality and regularity materiality threshold of no more than 2% are fulfilled. Furthermore, because revenues are cashed the same year as they are recognised and with most of the controls performed by external auditors from the entrusted entities the principles of cost-effectiveness and sound financial management are also complied with.

Fraud prevention and detection

DG ECFIN has developed its anti-fraud strategy since January 2014. It was elaborated on the basis of the methodology provided by OLAF and is reviewed every second year. Our anti-fraud strategy includes the following action categories:

- *1) measures to promote fraud awareness,*
- *2) ethics and integrity, and*

[17] Special Grant Agreement (SGA); Framework Partnership Agreement (FPA); Grant Agreement (GA)
[18] There is no such procedure for MFA grants
[19] BCS 18 days PERICLES 42.5 days EIAH 47 days
[20] No MFA grant was awarded in 2015
[21] BCS 13 days PERICLES 13.5 days EIAH 1 day

- *3) measures to improve cooperation with implementing partners in the areas of fraud prevention and detection.*

In 2015, we implemented several actions, conducted a fraud-risk assessment, and started a review of its anti-fraud strategy.

Anti-fraud measures implemented in 2015:

• We promoted fraud awareness among staff by including anti-fraud content our intranet. This involves general guidelines, a Procedure for reporting serious wrongdoing, red flags, links etc.

• We continued the cooperation with our partners (prevention and detection): we assured the inclusion of anti-fraud and audit clauses in all agreements, operational units performed monitoring visits that also focused on partner's control systems, and we performed ex-post verifications.

• Throughout 2015, fraud prevention and detection aspects were an integrated part of our regular controls (monitoring visits, ex-ante controls, ex-post controls). Controls aimed at preventing and detecting of fraud are not essentially unlike those intended to ensure the legality and regularity of operations. For example, no evidence supporting the claims of fraudulent activity was found in one ex-post control report finalised in 2015.

In general, however, we assessed residual fraud risk to be low.

Nevertheless, in 2016, we will continue the implementation of its anti-fraud action plan. We will also focus on reviewing and updating the anti-fraud strategy. The new version shall aim at better aligning our future strategy with DG ECFIN's reorganisation and with our evolving priorities.

Even if our anti-fraud strategy has not yet been fully implemented, and considering the mentioned actions as well as the low estimated residual fraud risk, we conclude that the anti-fraud controls and actions were adequate. This is supported by the fact that we did not transmit any new cases to OLAF/IDOC[22] for investigation, and OLAF did not, based on our information, initiate cases concerning our activities.

Safeguarding of assets and information and reliability of reporting

Treasury activities and borrowing and lending operations (off budget management):

The general aim is to generate the highest return available, while maintaining a high degree of stability and security over the long-term and after having ensured there is sufficient liquidity to meet the obligations payable out of these funds. The control system relies on comprehensive rules and detailed manuals of procedures with respect to the investment policy. The Treasury Management Committee exercises supervisory duties on the implementation of the investment policy and there is adequate segregation of duties between front-office and back-office. Furthermore, the risk management team is independent from the processing of transactions and annual financial audits are performed by external audit firms on the financial statements on the assets managed by us. Compared to the performance of similar portfolios managed by the EIB, it can be stated that the performance obtained by the Commission portfolio managers has been very similar over the longer run and comparatively advantageous. The performance of the main mandates at 31st of December 2015 is within 0.3% and 0.8% with additional details provided in Annex 12.

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[22] Investigation and Disciplinary Office (IDOC)

To finance the lending activities decided by the Council or by Council and Parliament, the Commission is empowered to borrow funds on the capital markets, on behalf of both the European Union and Euratom, with the guarantee of the EU budget. The aim is to obtain funds from the market at best available rates by using the top credit status of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back to back operation, which ensures that the EU budget does not take any interest rate or foreign exchange risk. Likewise, the aim to obtain funds at the best available rates for the borrowing and lending activities has also been achieved since those rates are in line with the peer institutions (EIB, EFSM, ESM). These rates can be expressed as basis points over the mid-swap rates and are included in Annex 12.

It should be noted that treasury activities and borrowing and lending operations do not cover all financial assets and cash but only the outstanding loans and the managed assets within the scope of consolidation. The reason for the difference is that while some items show as financial assets in accordance with the accounting rules there are no assets as such to manage (for instance the equity investments or the capital increase of EIF).

The positive recorded results of the implemented control procedures such as no incidents, no material audit findings, no control failure, no exception with financial impact, etc. demonstrate the compliance with the safeguarding of assets principle, as well as compliance with the target error rate of close to 0%. Moreover the various measures described under ICT 1 (see Annex 5) and the positive results of these measures lead us to conclude positively on the achievements of the control objectives as regards "Safeguarding of Assets and Information" and "Reliability (true and fair view) of Reporting".

The positive control cost-effectiveness of the non-expenditure items is shown below with the cost indicator for assets managed down from 59,3 in 2014 to 55,4 per EUR 1 million. The cost-effectiveness of controls on the assets managed by the EIB is also positive with the remuneration fees kept within the contractual boundaries and the cost indicator which has decreased from EUR 223 per EUR 1 million in 2014 to EUR 197 per EUR 1 million.

COST-BASED EFFECTIVENESS INDICATORS – OFF BUDGET MANAGEMENT			
Type of expenditure or management mode or ICS	**Stage**	**Indicators (annual indicators)**	**Description**
Treasury and assets management & Borrowing and lending operations	All	Overall costs (selection, protection, assurance, financial management)/ total of assets and outstanding loans and borrowings 0,005% or EUR 55,4 per EUR 1 million	staff FTE * standard staff cost/total assets managed and total Borrowing and Lending operations EUR 3.409.577/EUR 61.469.300.000[23]
Guarantee Fund for external actions	overall indicator	Overall internal and supervision costs (including 7% overhead)/total assets of the fund 0,02% or EUR 197 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (outsourced audits and monitoring missions by EC)+ management or administrative fees paid /total assets managed under supervision EUR 412.766/EUR 2.085.970.000
Guarantee Fund for external actions	overall indicator	Remuneration fees paid to the entrusted entity/total assets of the fund 0,04% or EUR 412 per EUR 1M	all types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision EUR 861.227/ EUR 2.085.970.000

Contingent assets and liabilities (off budget management) are guarantees received or given in the framework of various financial instruments. This implies that these operations are essentially accounting bookings to reflect the maximum exposure to defaulting risks and in that respect the control objectives of the true and fair view and of the legality and regularity with a material threshold are complied with. These achievements are the result of the accounting control systems in place with further monitoring by the Commission Accounting Officer.

[23] EUR 4.588.800 of consolidated assets + EUR 56.880.500.000 of loans

2.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the opinion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

The DG is audited by both internal and external independent auditors: the IAS and the ECA. Following the Commission's decision to centralise the audit function since March 2015, the IAS was solely responsible for conducting internal audits in the Commission (and Executive agencies). Recommendations issued by the former internal audit capability (IAC) and not yet implemented had been screened by the IAS in May 2015.

During the start of the period of reference[24], the IAC had completed one audit on Document management to which the IAC issued one very important recommendation that the IAS subsequently downgraded to important as a result of their screening exercise. Another very important recommendation from the former IAC audit on IT project management was downgraded to important as a result of the IAS screening exercise. One remaining very important recommendation issued by the former IAC in relation to the Audit on IT security (Assurance provided by third parties on security measures) has been considered by the management as implemented and was during the reporting year under the review of the IAS.

During the end of the period of reference[25], the IAS completed one multi-DG audit on Participant Guarantee Fund for FP7 and H2020 to which our DG was one of the sampled[26] services related to asset management. The IAS assessed our action plan as satisfactory. No critical or very important recommendations were issued by the IAS to us during the reporting year. Additionally, all recommendations were deemed by the IAS as 'implemented' in relation to the IAS follow-up on three former IAC audits on Asset Management of Mandates, Budgetary transactions and Forecasting Exercise.

In relation to the previous IAS audit on HR Management in response to the financial crisis in DG ECFIN, the relevant action plans are being implemented as planned and are on schedule apart from two originally rated Very Important recommendation issued by the IAS. As a result of that IAS Follow-up Audit carried out in 2015, three (out of five past) recommendations were deemed by the IAS as 'implemented', including one Very Important recommendation related to Monitoring and Reporting on HR management. One, out of two originally rated Very important recommendations, had been partially mitigated and was thus downgraded by the IAS to Important (HRM Strategy). The other Very important recommendation (HR annual planning) still remains open with the original rating. A second follow-up by the IAS is planned to take place in 2016. In the meantime, with regard to the latter recommendation, a Working Group to develop an ECFIN Workload Management Tool initiated by us in autumn 2015 is nearing the completion of its work and a more flexible and project-oriented DG ECFIN way of working called Teams for Themes has been rolled out. In this way we can ensure that that its business objectives are met through a more flexible use of resources. Full implementation is now expected to be achieved during the first half of 2016 (instead of by the end of 2014 as originally planned). No material impact on the internal control objectives exists, and the current state-of-play does not qualify the Declaration of Assurance.

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[24] The final IAC report issued in 2015 which were not mentioned in the 2014 annual opinion of the IAC.

[25] The final IAC report issued in 2015 which were not mentioned in the 2014 annual opinion of the IAC and the final IAS reports for 2015 (issued in the period 01/02/2015 – 31/01/2016)

[26] The other DGs were RTD (Research and Innovation) and ERCEA (European Research Council Executive Agency)

Equally, all IAS audits and IAC audit carried out[27] concluded that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set for the process examined.

Based on the IAS conclusion, the audited internal control systems were overall working satisfactorily although one very important finding (HR annual planning) remains to be fully addressed in line with the agreed action plan. Particular attention should be given to the impact of the delay observed in implementing the recommendation on HR management.

The ECA continued its contradictory phases on the Financial Assistance provided to Countries in difficulties and Quality of Excessive Deficit Procedure and macro-economic data and effectiveness of the Commission's tighter surveillance of economic and fiscal policies. The ECA also commenced two other preliminary findings on EU assistance to Ukraine and EU assistance to Moldova and undertook preparations for three new audits on Macro-economic Imbalance Procedure, Financial Instruments and European Semester in which all of them we were involved. Further, the lead DG for another ECA audit on Greek Task Force: Was the Commission's intervention in the Greek financial crisis effective was changed from DG ECFIN to the Secretary General (SG) since July 2015 due to the transfer of Task Force of Greece to SG. No ECA reports were finalised by the end of 2015, but they are planned to be published in 2016.

Conclusion: As a result of the assessment of the risks underlying the auditors' observations, including the availability of the ECA's preliminary findings of the on-going ECA audits at the time of drafting the 2015 Annual Activity Report together with the management measures taken in response we believe that the recommendations issued do not qualify the Declaration of Assurance and are being implemented as part of the on-going continuous efforts in terms of further improvements.

[27] Taking into account the IAS screening exercise carried out in 2015.

2.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

We have put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

We annually assess the effectiveness of its key internal control systems, in accordance with the applicable Commission guidance. The assessment relies on a number of monitoring measures and sources of information including a survey-based management self-assessment carried out in December 2015; reported instances of exceptions and non-compliance events and internal control weaknesses, the internal Annual Financial Management Report based on the Annual reports from individual Authorising Officers by sub-delegation (AOSDs) to describe the main facts and developments in the budgetary and financial sphere; relevant audit findings; the risk assessment process, including the mid-term review of the risk register, results of work by the management steering Committees or Boards (such as Treasury Management, Internal Control (ICMG), Human Resources (HRMB), Advisory Committee on the Use of Resources (ACUR)) and results of the ex-post control work. Finally, the IAS opinion on the state of internal control has been taken into account as well. This analysis had enabled the Internal Control Coordinator to report the state of internal control and his recommendations to the Director General.

Overall, management reports through the management self-assessment (response rate 46 %) that the principles for internal control are implemented and functioning. The functioning of the internal control systems has been monitored throughout the year by analysing the underlying causes behind these exceptions and weaknesses and corrective and alternative mitigating controls have been implemented when necessary. Concerning the overall state of the internal control system, generally the DG complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks.

An on-going effort in line with the principle of continuous improvement of management procedures will further reinforce internal control system upon the forthcoming re-organisation to take place in March 2016, such as the staff allocation in line with priorities and needs, monitoring of performance on the achievement of the objectives through the revised planning documents and the revision of the unit manual of procedures. Also the results of the management self-assessment survey showed improvements made in the prioritised ICS in 2015, such ICS 11 (Document management) and ICS 8 (Processes and procedures), especially in the implementation of DG's security policy. The results of that survey tallied with the our analysis made in July 2015 on the 2014 Commission wide staff-survey conducted in the end of 2014 where further attention to career and mobility paths within the DG, and individual career development support or targeted career development programmes for specific groups were noted.

As a result of the re-verification of certain accepted external (out of our control) critical and high risks, as endorsed by our senior management in November 2015, number of such risks were reduced from seven to six critical and from 18 to 14 high risks. Nevertheless, those risks were not considered to have been materialized in the reporting year and mitigating controls have been implemented when necessary. The compilation of the results of the next round of the annual Risk Management exercise linked to Strategic

Plan 2016-2020 and 2016 Management plan was on-going upon the drafting of the 2015 Annual Activity Report.

In conclusion, the internal control standards are effectively implemented and functioning[28], taking into account the re-organisation which entered into force in March 2016.

[28] The single very important recommendation on the HR resource allocation, open and overdue at the end of 2015, was adequately addressed through DG ECFIN's re-organisation in Q12016.

2.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The declaration of assurance from the Director General is based on the various assurance mechanisms provided in section 2.1; 2.2 and 2.3. This declaration covers the full scope of the budget (direct and indirect management) and off-budget operations delegated to him as reflected in Annex 3 to the AAR.

All five control objectives were met for all three major control systems at DG ECFIN (direct; indirect and off-budget managements) as shown in section 2.1 and with full details provided under Annex 5 and Annex 10.

The available audit results and observations did not highlight critical or very high risks that would qualify the Declaration of Assurance, as shown in section 2.2.

Similarly, management assessments of the implementation of internal control principles and standard did not identify deficiencies with a negative impact on the declaration as shown in section 2.3.

These comprehensive assessments support positively and provide the sufficient guarantee with respect to the five statements included in the declaration of assurance (true and fair view, resources used for the intended purpose, sound financial management, legality and regularity and non-omission of significant information) as well as to the other internal control objectives (safeguarding of assets and information; and the prevention, detection and correction of fraud and irregularities) for both expenditure, revenue and off-budget operations.

Overall Conclusion

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

3. Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of Economic and Financial Affairs

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[29].

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the opinion of the Internal Auditor on the state of control and the observations of the Internal Audit Service for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Brussels, 21st March 2016

Signed

Marco Buti

[29] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.