
*CAN WE KEEP EXPANDING THE
'EVER CLOSER UNION'?*

THE FINANCIAL BAILOUTS AND EUROPEAN FINANCIAL AND ECONOMIC CONVERGENCE.



Kevin Jurak

360102

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1st reader and tutor: Dr. F.K.M. van Nispen tot Pannerden

2nd reader: Prof. A.G. Dijkstra

ABSTRACT

The financial crisis that started in 2007 in the USA had a severe impact on the European Union leading to several sovereign debt crises on the European continent. These crises were initially financial in nature but also had drastic political implications which even led to creation of terms like GRExit or SPexit. The monetary union seemed to be walking on a tightrope and the question of European integration and supranational decision making came under the spotlight for many critics. To see whether the nations in question actually co-operated and properly integrated and thus further got integrated into the European Union can both provide useful insight to political- and theoretical future of European integration. For this reason this research will look at the theoretical relations underpinning European integration as found in Linsenmann et al. (2007) by looking at one of the most important institutions that came to live due to the crisis - the ESM + EFSF + EFSM. From a theoretical point of view we are interested to see to what extent the existence of and compliance with this institution has led to actual integration. These relations between forms of provision implementation and integration (Europeanisation) have been identified and operationalised into practical search lights to examine official European Union documentation alongside academic articles. The three intervening variables through which this relation is influenced are: 1. the implementation and expansion of procedural and institutional provisions (compliance, the variable of this research), 2. the expansion and following of soft law deriving from the procedural and institutional provisions and, 3. the differentiation of power relations between actors as results from the new procedures and institutions. The research variable, compliance with treaties, has three elements, hard law, soft law and power differentiation. These three elements are expressed in: rate of technical compliance, national coordination system adaptation, overcompliance, spillover and power shifts. The spotlight was on countries which made use of the ESM/EFSF/EFSM: Spain, Ireland, Portugal, Greece and. The theory that there was correlation between compliance with and use of the treaties and actual integration was supported by the findings in all the cases with a small exception of Portugal. Where there was no correlation with expansion and following of Soft law deriving from the procedural and institutional provisions (overcompliance and spillover). Outside of this outlier we found correlation between compliance and integration in nearly every situation thus justifying our predictions and cementing the theoretical framework.

PREFACE

I would like to start my preface by mentioning how relieved I am – relieved to finally have found a subject I found interesting and I could conduct research on. Relieved that I managed to finish the thesis despite hardships. But also relieved that despite multiple Eurozone crisis we still have a Europe that wants to cooperate, be it through EU or not, which makes me optimistic for the future.

Having been born just outside of the time period of the USSR and the Warsaw pact in The Netherlands I have only heard stories of the situations how it was behind the curtain. As a Dutchman with eastern European origins I was glad to see the ex-Warsaw pact countries free from the yoke of communism and ready to join the free west in 2004. Seeing the two halves of Europe formally reunited was, now in retrospect, one of the most positive moments I have experienced in my political life. Of course I was too young to fully grasp what the entire situation was with its implications for domestic and European politics but it continued to spark my interest in Europe nevertheless. Always have I had a keen interest in Dutch and European history and progress and seeing the European sovereign debt crisis left me very conflicted with regards to my opinions. After having thought of Europe as a stable and cooperating family, the issues post crisis were both impactful and far reaching. Did Europe reach its limits? Is it regression from here on out? What is the best future for our European family? Having the opportunity to conduct research in this area not only greatly interests me from a professional perspective but also from a personal one. Thus I was glad to look at the European institutions such as the ESM and the European partners cooperating with the most troubled countries at the time, the PIIGSC.

However this research was not without its own barriers and setbacks. Both personal and health-related circumstances lead to me not optimally dedicating myself to my thesis. Demarcating and narrowing down on a specific subject too was very hard to do as my ambitions were grand and the scope generally too wide. Luckily my tutor, Dr. F.K.M. van Nispen tot Pannerden, was very helpful and supportive in narrowing down my subject and providing me with ideas. He too provided me with a general comprehensive theoretical overview of competing theories in the world of institutionalism and European integration. This helped cement my views and ideas. Further would I like to thank my 2nd reader Geske Dijkstra for taking the time to read and help me improve my thesis. Another pivotal actor in helping shape my ideas and thesis progress was fellow student and friend Pira Rajahkumar. For mental and emotional support I would like to thank my parents and friends who kept me motivated no matter how little momentum I had.

LIST OF ACRONYMS

BDE:	Boletín Oficial del Estado (Spanish Official Gazette)
BES:	Business Expansion Scheme
CIT:	Corporate Income Tax
CSR:	Country Specific Recommendation
EC:	European Commission
ECB:	European Central Bank
ECOFIN:	Economic And Financial Affairs Council
EFSF:	European Financial Stability Facility
EFSM:	European Financial Stability Mechanism
ESM:	European Stability Mechanism
FROB:	Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring)
GAO:	General Accounting Office
GLF:	Greek Loan Facility
HoR:	House of Representatives
IMF:	International Monetary Fund
MIP:	Macro-economic Imbalance Procedure
MOU:	Memorandum of Understanding
PPP:	Progress, plans, problems
PPS:	Post-Programme Surveillance
TFEU:	Treaty Establishing the European Stability Mechanism
TFGR:	Task Force for Greece
SOE:	State Owned Enterprise
SGP:	Stability and Growth Pact
SLE:	Subordinated Liability Exercise
RDL:	Royal Decree Law

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1. RESEARCH SETUP

1.1. BACKGROUND

Having followed nearly a decade of catastrophic financial situations one after the other the beginning of 2015 seemed to be a relatively stabilising point in the European Union. After being hit with shock of the bankruptcy of several banks on the international financial markets after 2007, the imminent flaws of the European Monetary Union (EMU) member states themselves became amplified resulting in the European debts crisis. The nations struck worst by the economic changes seemed to be at mercy of the better faring nations. We can see the de facto influence of a country like Germany has on Greece, recently visible with the visit of the then newly elected minister of finance Yanis Varoufakis to Germany (FT, 2015). While Greece was de jure subject to European regulations and commitments we can clearly see that all eyes were turned to Germany for the hope of re-negotiations of the austerity and debt resolution terms. Which raises an interesting point, to what extent is Greece even sovereign in their financial and budgetary procedures? How much is decided intergovernmentally between sovereign nations and how much is determined by international regulations? How much is now determined by the European Union? We can see an asymmetry in the amount of foreign influence countries seem to receive. With extremes on both sides of the coin as we have seen the German Federal Court ruling EU treaties to be unconstitutional and not to be implemented. (German Federal Court, 1993) On the other hand the well-known case of Greece being at mercy of various foreign actors such as the Troika, International Monetary Fund (IMF), European Central Bank (ECB), and other actors (CNBC, 2015) (Reuters, 2014). While not evenly distributed we can clearly see all across Europe nations have to conform to new standards like the Stability and Growth Pact or the European Union issued six-pack. But how far does this 'foreign' or international influence go on to the national procedures?

One of the most important changes coming out the European sovereign debt crisis is the way financial problems were structured and the response created by European actors to combat it. Some Eurozone members were in deep financial trouble and the Economic and Financial affairs council of ministers came together at an extraordinary council meeting to combat this troubling development of debt crisis. The European Financial Stability Facility / European Financial Stability Mechanism (EFSF/EFSM) were the result, which in due time became a more integrated permanent institution in the European Stability Mechanism (ESM). This ESM is responsible for the financial aid for troubled countries and thus has recently been a very important institution. This institution nevertheless isn't merely a vehicle for aid but they are distributing aid on conditions - certain reforms are conditional to receive this aid. Many of these reforms are intended for changes at the national level but some are also aimed increasing supervision and decision-making at the supranational level. As important as these conditions for the aid may be, somehow the compliance to these agreements isn't always up to norm and many reforms remain unimplemented. Integration may thus not occur or in some cases even lead to disintegration as dissatisfaction may arise within subject nations. We aim to discover the mechanisms of integration in this research in the light of the institutions of EFSF/EFSM/ESM.

1.2. PROBLEM ANALYSIS

Resulting from the European Union sovereign debt crisis the most relevant institutions to remedy the crisis situation were EFSF, the EFSM and the ESM. As international coordination is likely to be beneficial in facilitating economic recovery (IMF, 2015) it is scientifically important to determine the economic benefit of integration. To do so we have to look at the substance of the institution. These European institutions have several organs which facilitate inter-actor communication, long-term economic planning, funding and lending structuring, etc. all with the intent to help economic recovery through testing of reforms and distribution of loans. These loans are guaranteed on the international market by the backing of the European member states and thus are very low risk, perfect long term stability loans for the countries in need. Loans are contingent on the reforms planned in the Economic Adjustment Programmes. These reforms are the core of actual changes happening due to the institution. The compliance with the treaty and actual implementation of these reforms alongside honest communication with fellow peers determines to what extent things actually become reality. This research aims to find the relation between this compliance and actual European integration and is based on the theoretical fundamentals of Linsenmann et al's (2007) European policy-coordination and integration framework.

1.3. CENTRAL RESEARCH QUESTION

The focus on the relation between treaty -> compliance -> integration will be reflected in the central research question as follows:

"Has compliance with the ESM and its predecessors lead to actual European integration and policy coordination for its subject countries?"

When broken down we can identify seven main elements to the research questions:

1. What exactly are the ESM and its predecessors?
2. What is compliance with treaties and agreements in theory?
3. How does compliance with treaties and agreements express itself in practice?
4. How can actual European integration and policy coordination be defined and measured?
5. Does compliance with the ESM and its predecessors lead to actual European integration?

The sub questions aim to structure our research and return in this research as follows: The first question with regards the ESM and its predecessors are briefly discussed in chapter 1 and further elaborated upon in chapter 4. The second sub question will be discussed in chapter 2, specifically chapter 2.2., 2.3., and 2.4.. The third sub question will be answered in chapter 3.2., where the theoretical becomes practice in the operationalisation. The fourth sub question is answered in chapter 2.5. and 3.2.4.. The final sub question will be answered through analysing the cases (chapter 5 through 9) after which an answer and conclusion will be given in chapter 10

and 11. However a research has to be relevant and useful for it to even be done, we will now discuss the relevancies of this research both scientific first and societal after.

1.4. SCIENTIFIC RELEVANCE

The topic of European integration is a highly discussed one in the literature as there are multiple theoretical schools debating about what the most influential source of integration is. Indeed ever since Moravcsik publicized *The Choice for Europe* in 1998 there was an acknowledgement of the gap in the field of European integration. This theoretical black hole sparked a fierce debate across Europe as integration was becoming more prominent with the inner workings behind it being a 'mystery'. One of the first theories on European integration came from the school of thought known as neo-functionalism, who postulated that spillover on the supranational level was the main driver behind European integration. This theory fell out favour as problems with the theory became clear and even its own creator, E. Haas, acknowledged the gaps in the theory. The academic world did not stand by idle however as explanations arose to fill these gaps and the academic field further matured leading to theory from the other side of the spectrum: intergovernmentalism. As Puchala (1999 p. 318) mentions, the first main divide in the literature was between intergovernmentalists and institutionalists. With the former looking at explanations at the national level and the latter at the supranational level. While this debate is still very much ongoing and too complex for a simple answer it is a worthwhile opportunity to add further research to the debate as the European debt crisis is a recent and significant change in the paces of European integration. Taking a look at the crisis by examining a new institution and trying to understand how it lead to (or did not lead to) integration can help us further understand the workings of integration in the current societal setup. In the literature there has been some attention for the ESM but there wasn't yet any research produced that focused completely on implementation and the impact on European integration.

1.5. SOCIETAL RELEVANCE

To the extent that it is possible to understand the workings of European integration it is useful for public discourse. The transfer of certain vital competences and sovereignty to a supranational organisation is a highly political issue and leads to conflicts in nearly every sphere of life. The highly political nature of this issue will make it a discussion in every single country participating in the European project and will lead to different needs and desires across states. Regardless of its outcome, it is necessary to know whether (un)desired integration is caused by certain rules or agreements. Would a society decide to further participate (or not) in the European project, knowing how the black box works will prove to be valuable to facilitate the desires of the peoples of Europe.

1.6. READING GUIDE

This research will follow a certain structure, here we aim to enlighten the reader a little on how to proceed.

In chapter 1 we will introduce and describe the background of the research, narrow the research down to a central research question and describe the relevance of this research.

In chapter 2, the theoretical framework, a literature review will be conducted on European

integration to aim to encapsulate all major theories of integration and to compare them vis-à-vis. We will first outline the three major theories of (European) integration, First we will describe the distinction between hard and soft coordination as it is such an important aspect of European law. Afterwards the intervening variables who interact between the relation will be discussed and a justification is provided for the choice of theory. Then the dependent variable will be outlined and theoretically described. At the end of chapter 2 will formulate predictions based on the theory and briefly outline the cases that will be discussed.

In chapter 3, the research design, the theory will be operationalised and made ready to research. First the research method will be discussed and the intricacies of research choices will be elaborated upon. Then the terms from the predictions will be operationalised, this means they will be defined and made quantifiable. First for the three elements of the intervening variable and then for the dependent variable. Having operationalized that, the background of the cases will be briefly outlined. After this the validity and reliability of the research will be discussed with the aim of making sure that the reasoning and research is theoretically sound. Having discussed the possible pitfalls of research we will put the operationalisation in a practical setting with a template analysis where we will describe all the research steps a guidance for how the text will be analysed. In chapter 4 we will make an analysis and description of the independent variable. The legal constitution will be contextualized and the historical process of formation will be outlined. From chapter 5 through 9, the cases will be quickly described with their background and the case material will be analysed. At the end of each case we can briefly see the results for each expression and the results for each prediction. The results of these predictions will be compared in the comparative chapter, chapter 10 – here we aim to find overlaps and differences and to understand how valid the posited theoretical relation is. In chapter 11 conclusions are drawn from the findings and the central research questions and sub questions will be answered. After these answers, the context of the findings will be discussed with suggestions for further research afterwards. Material that is too long and/or superfluous to the actual research itself will be apprehended in the annexes. In annex 1 we have a detailed literature review of European integration and new institutionalism. Annex 2 represents further elaboration on other intervening variables. Annex 3 is the Portuguese program and its analysis in its entirety for the years 2011 and 2012, these were too long to write in the main text. And annex 4 is the Spanish program in table form.

2. THEORETICAL FRAMEWORK

As we look at European integration and the major policy schools of thought behind it, we can differentiate three main schools of thought: neo-functionalism, liberal intergovernmentalism and neo-institutionalism. These three schools of thought all mention a different prime cause for driving (European) integration. This is left to annex 1 however where a more detailed background on the theoretical background on European integration is given. In this chapter the aim is to build upon contemporary theories of integration, namely Linseman et al 2007.

As outlined in chapter 1.2 we have desire to find the link between factual provisions and treaties and the way they actually unfold in practice. This discrepancy manifests itself best in the terminology of legal and living constitutions as per Linsenmann et al (2007) who state that the treaties and agreements always end up differently than their treaty text states and intends. So far on the topic of Europeanisation/integration the most comprehensive framework seems to be the one provided by Linsenmann et al (2007). This framework incorporates the theories of institutionalism, Europeanisation, Fusion theory, among many more in an attempt to create an overview of the forces that influence upward integration of European politics. This integration is categorized under various names: Meyer & Umbach (2007) with their Europeanisation of national policy making areas describe how over the course of years treaties get made, renegotiated, implemented and used on the national level. Meyer & Umbach (2007) name five types of integrational stages which are distinct in how they are treated. Wessel's Fusion theory looks at the broad horizontal and vertical fusion as a characteristic of integration, which ranges from decentralised loose co-ordination to centralized supranational government.

2.1. LINSENMANN ET AL'S FRAMEWORK

Linsenmann et al (2007) provided a comprehensive framework for explaining European integration from both the perspective of hard and soft law. Building upon various integration theories they managed to isolate three main factors through which agreements/law (legal constitution) translates into actual de facto policy co-ordination (living constitution) and these three factors are: Compliance with and use of the Treaty provisions and secondary law, impact of law on the interactions between multi-level actors and the impact of the law on the public debates within and across member states. These intervening variables are then explained by various schools of thought of new institutionalism. This comprehensive framework has thus managed to create predictions that relate to these three variables. For a full outline and a literature review on neo institutionalism and European integration please see annex 1.

In the realm of European integration we see many cases where agreements and provisions are made but factually they managed to change nothing about the status quo in a policy-making area due to political gamesmanship, lack of potential gains, incompetence, bureaucratic overload, etc. The aspect on which agreements translate into actual institutional changes is best described by Linsenmann et al's framework which portrays the process as it funnels through three intervening variables. This lack of integration can thus be for various reasons, as we are working with conscious actors and there are various reasons for deviance, gaming the system, half-implementing, non-complying, etc.. There are three major intervening variables, firstly interactions between various levels of governance, second the impact on public discourse and

thirdly the compliance of provisions. The latter variable is the one that is subject of this research as we are interested in implementation and compliance with its effect on actual integration.

To see the other two intervening variables in further detail please see Annex 2. For the sake of feasibility and brevity, only one intervening variable will be researched in this paper. While this diminishes how comprehensive this research is, it does increase the internal validity as the sole focus will be on compliance with treaties. Please see section 3.5. for further elaboration.

2.2. MAIN INTERVENING VARIABLE: COMPLIANCE WITH TREATIES AND THE ELEMENTS OF COMPLIANCE

The way legal constitutions translate into living constitutions as described in prior chapter depended on three pathways - however - we are interested in discovering the effect of compliance on the actual level of integration and Europeanisation of policy-making areas. Compliance with treaties goes through main variables: hard law with its institutional changes, soft law with unofficial norms and mannerisms between actors, and differentiated power relations due to (increased) enforcement mechanisms have an impact on actual integration.

With hard law we see depending on the historical context, incentives or disincentives or national governmental strength/political stability being reasons leading to the factual implementation of the new provisions or procedural changes. Where certain governments have their roles already set out for them as they have a habit of "traditional unreflective reverence for pre-existing authority" (Finer 1970: 104), whereas other governments can be more sceptic of new policy and will critically reflect on what to do with the substance. Reforms carry certain risks as political reaction can be unfavourable and lead to a loss of support, this support might also be lost if the supporting population perceives the government as not having the national interest in mind enough as they transfer all national sovereign competences over. Within the element of hard law implementation we see two primary divisions in reasoning: rate of compliance (timely implementation, correct predictions, ability to achieve correct targets) and national coordination structure adaptation (policy is created around new hard law, anticipation of changes is important in the status quo, proactive communication between actors on future policy). Both these variable's indicators hold a positive relationship with actual integration. The idea behind the changes in hard law is that actors are forced to achieve new targets which can only be achieved by behavioural/policy changes thus taking away some of the subsidiary sovereignty and leading to integration as those targets have to be abided by. On the other hand from a more meta perspective is the anticipation of nations of a new policy wind, when austerity is highly desired and is the new *modus operandi* for recent policy rulings it is wise to conform and to change your long term strategy to be more in line with what the new hard law is or is going to be. This also will lead to more integration as more policy decisions are made at the supranational level.

This also brings up the split between interest realisation versus normative behaviour. Certain actors might be prone to acting more opportunistic and obeying the provisions as it grants them more benefits than detriments this might not be true for all. Norm-based behaviour where well-intentioned or ideology-abiding actors will go further beyond what is required and create what is called 'overcompliance' (Linsenmann, 2007, p. 23). Cooperative actors who believe in the idea of politics being a non-zero-sum game aim to perform as well as possible. Likewise actors might believe in reciprocity and overcomplying might be considered a beneficial two way street. As

problems became grander in scope, so does the solution it requires. Actors might have trouble solving a particular problem on their own, leading to the need to involve more actors in the policy-making process. Here actors try to cooperate across fields outside of own intention to try to increase gains, learning and maximising the collective gains. The name spillover derives from issues (or solutions) spilling over from an (policy-making) area to another an area. This cooperation can exceed vertical barriers between peers (peer review, peer pressure) or across policy-areas (collaboration between labour and fiscal to create uniform policy). Both overcompliance and spillover hold a positive relation to actual integration and as these indicators become stronger so will actual integration increase.

Contrasting this is however the necessity to enforce policies in case of noncompliance, where soft-coordination lacks enforcement mechanisms, national representatives are at their own behest for following and pressuring their peers into adhering to their agreements. Where institutions are strengthened or created there is a possibility for a power shift in the arena as commissions, supervisors or intermediaries gain more power (formal or informal) to increase compliance. Here one can think of competences to have positive or negative financial repercussions to adherence (granting aid/CAP funding versus sanctions), further inclusion/exclusion from the decision-making process or naming-and-shaming/pressuring non complying parties into participation. As power of an actor can be thought of as having various stages, we can derive from the theory that the more powerful a supranational actor in the network is - the more integration will concur as they will have more ability to enforce the agreements/provisions.

2.3. LIVING CONSTITUTION - ACTUAL EUROPEAN INTEGRATION

Tangible integration isn't exactly something concrete or touchable as it merely represents cohesiveness in cooperation between various actors on certain areas. Integration has to be concretized as the amount of competences a (national) actor has given up to higher levels of governance. However this is not the complete image - as deliberation, cooperation and naming-and-shaming systems are also forms of integration For a more descriptive of history of European integration please see annex 1.

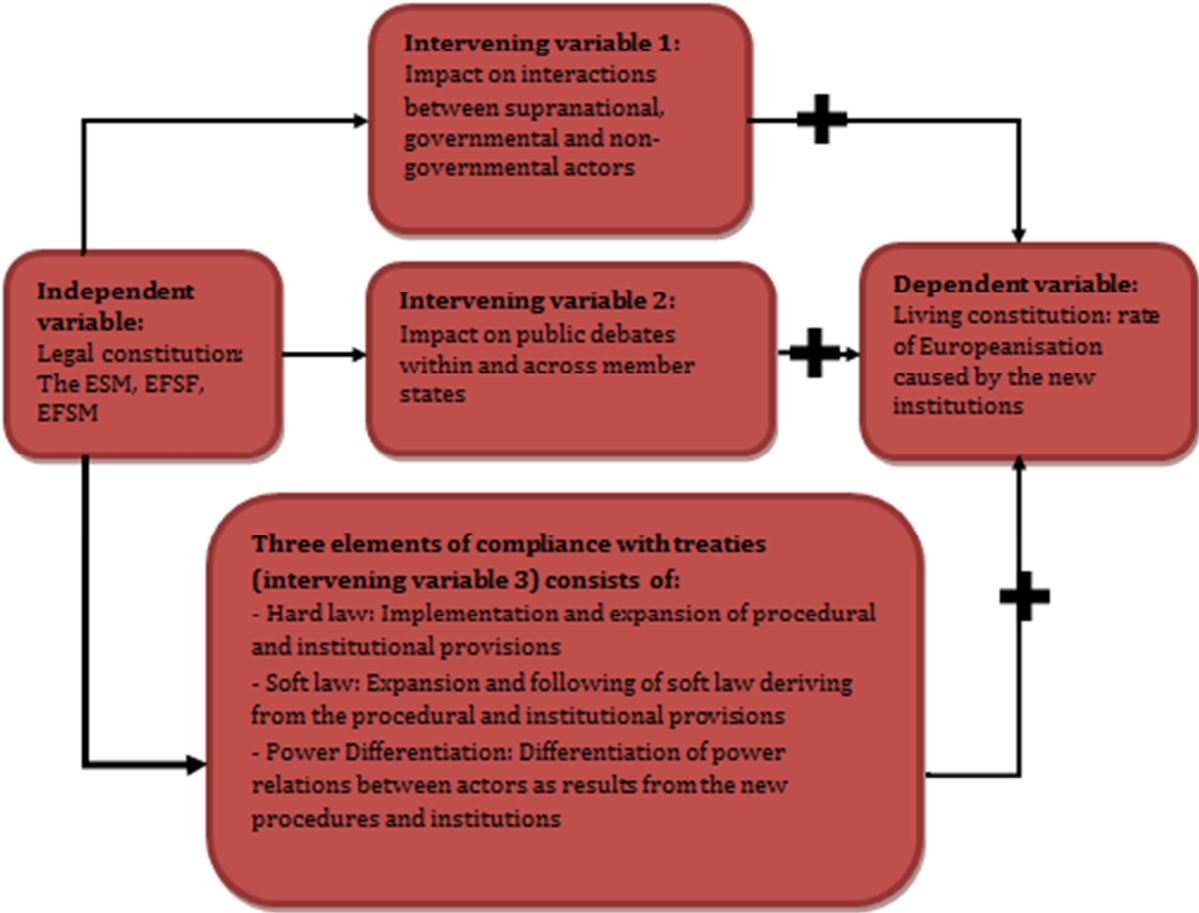
With bare minimum implementation of agreements or noncompliance with the provisions the result is a very little actual integration or even reduced integration (Meyer & Umbach, 2007). When it comes to direction of integration and direction of integration Meyer & Umbach (2007) name five types of Europeanisation movements: retrenchment, inertia, absorption, upgrading and transformation. Retrenchment deals with retreating Europeanisation due to excessive pressure or changing political will to retrieve competences back to the national level. This means that integration is reduced to the situation prior. Inertia is as the name describes, there is either a lack of initiative or adoption – this can be due to weak adoption pressure, low morale of weak consensus. Here we see no change in integration with the status quo. Next is absorption which is adoption of policies by technical requirements but not any political will or actual change of spirit, here we see empty requirement filling rather than actually complying to the spirit of the law/treaty. However when the spirit of the law is followed and it the provisions get implemented with good intentions and genuine desire to cooperate one speaks of upgrading. While upgrading increases co-operation slightly many more aspects remain untouched. This is

not the case for the final form – transformation where actors show full dedication to Europeanisation where new policy paradigms are set up.

2.4. THEORETICAL OVERVIEW

For the complete overview of the theoretical relation between compliance and the five stages of integration, see figure 2.1. below, where the entire theoretical relation is displayed. Here the independent variable is seen on the left side with its relation with the intervening variables. These intervening variables are briefly described in section 2.2 and described in greater detail in annex 2. The third variable, compliance with treaties, has a positive relation with the dependent variable, the living constitution. Compliance with treaties consists of three elements: hard law, soft law, and power differentiation. With respects to the scope of the research, only the third intervening variable will be researched – otherwise it will not be feasible for one single research paper.

Figure 2.1. Flowchart of the theoretical relations between the independent and the dependent variable with its three intervening variables included (source: Linsenmann et al 2007):



2.5. PREDICTIONS BASED ON THE THEORY

The expected relation between the intervening variables and the dependent variable is positive - the stronger the intervening variable is, the stronger the dependent variable becomes. This is also true for all of the three elements of the intervening variable 'compliance' for our research, the three separate elements of hard law, soft law and supranational power shift. As discussed in chapter 2.2. we managed to divide the main intervening variable into three elements - hard law, soft law, power differentiation - and these three elements resulted in five expressional values: rate of compliance and national adaptation for hard law, overcompliance and spillover for soft law and supranational power increase for supranational power shift. The goal is to establish whether or not there indeed is a correlation between the intervening variables and the dependent variable. Based on these three processes outlined in section 2.2. and 2.3. . we will file predictions for each process.

P1: The more there is compliance with hard law from ESM provisions, the more European integration in the policymaking-area.

With two main indicators/modes of expression for hard law. Hard law and adherence to it mainly consists of compliance in to the technical terms and the readjustment of new domestic policy making procedures.

P2: The more there is compliance with soft law from ESM, the more European integration in the policymaking-area.

Likewise with soft law we see two main indicators/modes of expression that are part of this process. Overcompliance and spillover are the two mechanisms through which soft law translates into integration. These two methods are further operationalised in the operationalisation.

P3: The more the differentiation of power relations between actors as results from the new procedures and institutions makes power flow upwards, the more European integration of the policy-making field will occur.

Here we will try to measure the flux of power at a relative or an absolute rate in either direction and to operationalise it so we can measure its relation to integration.

3. RESEARCH DESIGN

3.1. RESEARCH METHOD

So far we have outlined the postulated relation between the independent variable, the intervening variables and the dependent variable. While somewhat atypical, the cases have already been determined as they are directly distilled from the theory as they are the subject of this research – the EFSF/EFSM/ESM beneficiaries (the research material will be further outlined however). As formerly mentioned, those are only five countries and we are in need of a small n-research. Thus we aim to compare the relation between these variables and test whether they are indeed correct – the decision was made to have a congruence analysis as they are best at comparing different explanations for a phenomenon.

The purpose of a congruence analysis is to distil variables from the theories which will further be concretised, these expressions forms will be assigned scores on how strong its appearance is. This is to see which theory has the stronger theoretical explanatory power (Blatter & Haverland, 2014, p. 145). While in practice it is possible to test a single theory by the method of congruence analysis, having multiple theories sets up a pluralist theoretical framework which carries a stronger validity through comparison as it provides benefits through all stages of the researches (Blatter & Haverland, 2014, p. 161). Since however in the theory of legal/living constitution there are many approaches to how status quo comes to be, we look at one expression extensively and aim to analyse all of its expressions in a complementary fashion. This will be done by summarising the totality of score each case receives alongside its success of fail status versus the others cases by calculating the average score of each case for each theory. This will be done by a country on country basis (as unit of analysis) after which the results will be compared to one another. The purpose of comparing these theories against each other by means of congruence analysis is to prevent confirmation of pre-existing beliefs and biases as it pits competing theories against each other – thus fulfilling the scientific integrity as desired and described by Toshkov (2014, p. 2). While there are three main processes through which this relation works two of these processes have two different forms of expression and will also be separated and operationalised. All these five expressions will be defined and will have a description to their 1 through 5 scores.

3.2. OPERATIONALISATION OF THE VARIABLES

3.2.1 LEGAL CONSTITUTION OPERATIONALISATION

The ESM and its predecessors are in charge of overseeing economic readjustment for financially troubled countries through Economic Adjustment Programmes. These Economic Adjustment Programmes aim to change fiscal, labour, environmental, administrative, etc. policy-fields as to make the financial situation of that particular country more sustainable. For meeting these criteria the country in question receives long-term loans that are to be paid at a later time. The Economic Adjustment Programmes are a cooperation between the aid recipient's country, European actors (Commission, Eurogroup), bilateral lenders and international organizations like the IMF. An assessment is made of the problems that need to be solved for this particular case and policy recommendations are made. These specific policy recommendations are to be

implemented by specific dates. Which leads to the way we can understand the legal constitution. Outlining all the required (fiscal) policy changes with the time they are due is practically describing the legal requirements for implementation. How these requirements were met however is a subject that will be described by the intervening variable (compliance).

3.2.2. HARD LAW OPERATIONALISATION

As previously mentioned, hard law has two modes of expression: rate of compliance and national coordination adaptation. Rate of compliance is first and foremost a technical term that will be measured. Targets are set in Memoranda of Understanding and in the (approved) National Action Plans. Measuring whether the intended targets actually became achieved will thus be the goal. This is done by looking at date of admission - was the information handed in at the agreed time? Was the submitted data correct? Were the targets reached? A more tricky and not intuitive form of compliance expresses itself in the desire for benchmarking/peer-review. Here actors want to be sure they can achieve their technical goals and want to compare performance to be able to reach desired goals. In table 3.2. below we have operationalised the rate of (technical) compliance by giving it expressional examples and scores that can be attached to those expressions.

Table 3.2. Rate of compliance operationalisation

Rate of compliance expressions:
- Nature of the data, was it presented on time and with correct information
- Operational compliance with the agreements and provisions
- To what extent the targets were met
Rate of compliance scores:
- 1, Complete noncompliance, due to late or even non submissions of information. Incorrect or manipulated data and there was regard for change of the already existing national procedure.
- 2, Late just past date, incorrect or missing data, barely any targets met.
- 3, Exactly on time, roughly correct data, at least half of the targets are met but there is still significant noncompliance.
- 4, Just ahead of time, very correct data, nearly all targets are met.
- 5, Significantly ahead of time, very correct data and possible (extra request) for monitoring and/or benchmarking, complete achievement of set targets

The second expression is adaptation of the national coordination system, national coordination adaptation is in essence the rate at which the new formal provisions had an effect on the existing institutional structure of the national government(s). Whenever an alteration is made in the status quo of policy making due to this institution we speak of adaptation to the institution. This expresses itself in: institution being used as a reason to alter policy-direction at the national level, coordination and communication is increased between actors within the policy-network, prior national decisions are made in conjunction with peers and or 'superiors'. See table 3.3 below to see the operationalisation of this element.

Table 3.3. National coordination adaptation operationalisation

National coordination adaptation expressions:	
-	The existence of the agreement/provision leads to influencing the making of (new) national policy
-	Communication and cooperation is made with new supranational organisations/organs during the national policy formation process
-	National governments adapt their strategy for a specific national policy area in consultation with supranational actors.
National coordination adaption scores:	
-	1, None
-	2, Vacuous
-	3, Some
-	4, Strong cooperation
-	5, Active engagement and increase of communication

3.2.3. SOFT LAW OPERATIONALISATION

The main expressions of the element of soft law can be found in spillover and overcompliance. As we aim to analyse spillover we have to keep in consideration there is either vertical spillover (political spillover) or horizontal (functional spillover). Vertical spillover / political spillover is increased cooperation between actors as they becoming involved in the policy-making of the national government in question. We can speak of political spillover when the national government increases cooperation and the influence of decision-making their peers have (fellow governments, supranational actors) in the policy-making arena in question.

Horizontal spillover occurs whenever a problem becomes too large to be solved by a single decision maker/actor/arena/etc. Functional spillover is thus the incorporation of actors from different but slightly related policy-fields that are tangentially related to this (specific) problem. Spillover is a difficult term to practically measure as it isn't as technical as reaching certain targets. It will be measured by looking at the rate at which cooperation between sectors (either vertical/horizontal-field) is increased by gauging the influence they had on their respective policy-making field and the rate at which cooperation between these actors is increased. This can concretely be done by increasing competences of the involvement of other actors in the making of policy. In the table 3.4. below we summarized the way spillover will practically will be looked for in this research.

Table 3.4. Policy area spillover expressions.

Policy area spillover expressions:	
-	Vertical spillover of policy co-ordination between actors
-	Horizontal policy field fusion between separate but related policy fields
Policy area spillover scores:	
-	1, Further division and fragmentation of policy areas, less horizontal and inter-policy field cooperation
-	2, No increased spillover
-	3, Slight increase in vertical or horizontal spillover through vacuous cooperation
-	4, Real increase in vertical or horizontal through actual learning and policy adaptation
-	5, Significant increase in vertical or horizontal spillover through the initiation of new supranational committees, cooperation agreements, etc.

The other expression of soft law is overcompliance. Overcompliance is the well-intention of going beyond requirements of the set targets to increase success rate that can be relatively easily measured. When a target is not only met, but overachieved by 150% on purpose - we can speak of overcompliance. However results are not the only indicator of overcompliance. Sometimes an actor means well and dedicates more resources than necessary but still does not manage to perform well (due to external circumstances). This intention is important and shows dedication to cooperation. The reason an actor might desire to cooperation is the internalized norm of collective action being a net positive or a disdain for strategic behaviour. When looking for overcompliance, there are three main stages. No overcompliance whatsoever, some overcompliance/intention, and significant overcompliance. We speak of some when there was an attempt but without results that are status quo altering. And on the other hand significant means that the attempt to overcomply has had an impact on the status quo. See table 3.5. below for the expressional possibilities and accompanying scores.

Table 3.5. Overcompliance operationalisation

Overcompliance/ spirit of the law, expressions:	
-	Initiation of new policy or institutions on either supranational or national beyond the scope of the provisions
-	Proposed targets and objectives were not only met but went pas expectations
-	Informal discourse/lobbying occurred to pressure peers into compliance
Overcompliance/spirit of the law, scores:	
-	1. No overcompliance whatsoever occurred, vacuous implementation or target gaming
-	2, Some overcompliance occurred, but it was not by intention/ there was some intention to overcomply but it wasn't achieved.
-	3, Some overcompliance occurred and there was some intention behind it.
-	4, There was significant overcompliance without intention/ significant intention without overcomplied targets.
-	5, There was significant overcompliance and it was with significant intention

3.2.4. POWER DIFFERENTIATION OPERATIONALISATION

As provisions and law dictate certain changes in institutions, power relations between governments or between supranational actor and government tend to shift one way or the other. The expressions can be seen as competence transfer, legitimacy gain, focus and exposure increase in an institutional setting, strengthened monitoring/enforcement mechanisms being created, etc. The distinction must be made between absolute and relative changes, as absolute changes can happen (a commission can issue sanctions) and it is indisputable, however there is also relative change, more importance/legitimacy goes to an actor in an institutional setting for a certain reason. Where actors tend to get soft power, weak power and/or informal power, it is categorized as a relative increase in power. Where it gains new competences or formal strengthening in the provisions it gains absolute power. Hence institutional power relations can be categorized and predicted as follows in table 3.6.:

Table 3.6. Power differentiation expressions:

Power change expressions:
- A provision grants a supranational institution more competences
- The ability to enforce compliance is strengthened or is granted to a supranational actor
- Repercussions are introduced or strengthened for noncompliance in a supranational policy-making area
- A supranational actor receives informal recognition or legitimacy
Power change scores:
- 1, absolute decrease of supranational power in the institutional framework
- 2, relative decrease of supranational power in the institutional framework
- 3, status quo stays the same despite provisions in the institutional framework
- 4, relative increase of supranational power in the institutional framework
- 5, absolute increase of supranational power in the institutional framework

3.2.4. LIVING CONSTITUTION OPERATIONALISATION

In determining the actual integration result we will take a look at the latest occurrences of national policy making for the respective countries and compare it to the initial legislation – did a significant change occur? To see this we need to operationalise the terms of integration this is done in the following table 3.6.

Table 3.7. Living constitution operationalisation: rate of Europeanisation

Type	Description	Measurement
Retrenchment	Retrieving of power and competences from the supranational level back to the national level.	Very low trust between actors, perception of inefficiency, lack of consensus, reactionary political pressure or fear of losing power.
Inertia	Stalemate and lack of change in the status quo due to either weak pressure or incentive	Costs too high, not enough benefits with implementation, the status quo is preferable, domestic resistance to change.
Absorption	No substantial changes and superficial agreement. No adherence to the spirit of the law despite meeting of most/all of the created targets.	Low end changes, some targets may be met but not everyone might comply. No change in national procedures but adaption without strategic change. Avoidance of significant costs.
Upgrading	Partial adaptation of new supranational provisions in the spirit of the law. All targets are met and the national structures are (partially) adapted to the new supranational requirements.	National coordination structures change (partially), there is a willingness to commit despite significant costs and people try to positively influence the coordination procedure.
Transformation	Fundamental changes in the political behaviour of national governments. Full adherence to provisions, identity discourse takes place, new institutions are legitimate and are initiated from the national side.	High trust between actors, optimistic perception of cooperation, consensus is reached, politicians desire cooperation and further delegation is nurtured.

In table 3.7. we can see the concrete steps that can be distinguished in various forms of Europeanised/integrated policy-making areas. Retrenchment is easiest to define as it's practically the inverse of the other stages - it's the disintegration and retraction from European cooperation. This occurs when an actor perceives it as unbeneficial to cooperate and beneficial to disintegrate as much as possible. Inertia is comparable to the null hypothesis in this spectrum, as at this point nothing happens to alter the status. Reasons for this may be ideological, political or practical as absolute or relative costs might be too high to make any gains. This is not the case with absorption where there might be adaptation pressure or the possibility to realise interest with superficial policy adaptation. Here we see the new vacuous implementation revolving around the pre-existing national procedures in an attempt to retain as much control as possible. The issue of adaptation costs for collective action is less present at the upgrading stage of integration. While at the upgrading stage of integration, significant costs might be made if the pay-off for them are significant enough. Here one tries to retain some shreds of the national

procedural structure but is willing to concede changes and there is some real change to a certain extent. At the final stage, transformation, however this notion of having disagreements and wanting a own foot between the door is gone. Here integration is an internal desire and can be observed with high trust between actors, meaning the perception of goodwill (relying on good intentions), perception of reliability between actors (belief that actors will factually do what they say) and a perception of the fellow actors being capable (the ability to actually translate agreements into real changes). The dependent variable relates to scoring of the intervening variable in 5 stages. Scores of 1 are tied to retrenchment, scores of 2 are tied to inertia, scores of 3 are tied to absorption, scores of 4 are tied to upgrading and scores of 5 are tied to transformation. However due to the issue of socially desirable answers (Paulhus in Henry, I. et al., 2002, p. 51.) as actors tend to give answers or statements that are usually more positive about the self, which in the case of negotiations, press-statements, etc. might lead to a more skewed result. Likewise document analysis is a hermeneutic process and thus some leeway is necessary. For this reason we aim to have a maximum upward and downward deviation room of one point (absorption f.e. allows scores from 2.0 up to 4.0) however after half a point of deviation will refer to it further as half true. On further validity and reliability of claims and the research please see following chapter 3.5.

3.3. CASE SELECTION

Like mentioned in chapter 2.1., we will take a look at the effect the institution of ESM and predecessors had on European integration. To find that out we need to look at which countries were directly involved with the ESM and predecessors. A total of five countries made use of the ESM and predecessors and all five can be analysed in this research. As we can see only the Eurozone members were recipients of EFSM/EFSF/ESM with Greece, Ireland, Portugal, Spain and Cyprus receiving it specifically. All these five cases will be discussed to encompass the entirety of the impact of the EFSM/EFSF/ESM.

3.4. SOURCES AND DATA COLLECTION

The primary sources of information will be the Economic Adjustment Programmes of the particular countries in question. Likewise there are regular reviews done by the European Commission which will be analysed as well. Outside of this there might be official correspondence between the national government in question and the international actors. (Informal) statements from the government regarding the program will also be analysed. All of this will outline the process of the consensus building and the possible changes that happen during cooperation.

Then to test the data we will use Eurostat alongside the sources included in the Economic Adjustment Programmes. The data gathered will be cross-referenced with the national data published by the government in question from their own Finance Ministry (where possible).

3.5. VALIDITY AND RELIABILITY

3.5.1. VALIDITY

A problem with this research design is the possibility of 'Tunnel Vision' as researchers are inherently biased and looking at situations with selective perception, looking for things they want to see. This can endanger the internal validity (Toshkov, 2014: p. 2). To see whether or not this is the case one for example can make use of a pluralistic theoretical framework (theoretical triangulation). As said by Hall (Blatter & Haverland, 2014, p. 161) the pluralistic framework encompasses multiple theories in a complementary or competitive setting to create 'a three corner fight' as mentioned by Hall (2006). This way internal validity increases due to the fact that it tries to avoid the internal confirmation bias due to the fact that you incorporate multiple perspectives and possible explanations for issues into the research which makes it inherently competitive and thus more likely to cover the causal possibilities. This research tries to simulate this by having three main (intervening) variables that compete with each other.

To certify the internal validity of the causality of the supposed theoretical relation Kellstedt & Whitten (2009) describe four causal hurdles a theoretical relation needs to pass before it has a modicum of credibility. The first and foremost most important hurdle is: is there a credible mechanism linking the two variables. Linsenmann et al's (2007) framework gives a proper theoretical explanation for the linkage in this research. However having a credible relation between these two variables says nothing about the relation – perhaps they are linked but in a converse way as the dependent variable actually influences the independent variable. For this research it means that the dependent variable influences the intervening variable which in turn influences the independent variable.. In this research we try to exclude this possibility as we look at time-dependent change to the independent variable with theoretical background to explain possible changes over time to the dependent variable. The third hurdle requires us to look at covariation or correlation between the two variables and to see whether there the supposed link actually exists. For this research we have concretized scores on a numerical scale so the relation actually becomes measurable. Based on this we can see whether there is a high score for the intervening variable and the dependent variable. The fourth hurdle however questions the interworking of the relation – while there might be a credible one directional relation between the two variables there might still be a confounding or intervening variable that influences them both and nullifying the postulation. We have three different approaches to measure compliance, however as the theory dictates we also know that there are two other pathways between Treaties and integration that are not researched in this paper.

With external validity the purpose is to determine whether or not the results of the research are generalizable and applicable to further similar cases. The higher the external validity, the more likely that the findings and relations within the research are also the case in similar situations. In this particular research we make use of case studies of a few specific cases who are embedded in a peculiar situation at a turbulent point of time, this obviously means that it is a very complex context which is hard to replicate in the future. This means that the findings of this research will be hardly applicable to similar cases of different countries.

3.5.2. RELIABILITY

To make a research reliable and reproducible the material that is used for the research along with its subjects should be clearly defined, transparent and should be possible to recreate in future researches. As such there will be a clear description of the cases in case description along with material that will be used for this research. This will make sure that the results of the research will be the same when others try to replicate this research.

3.6. TEMPLATE ANALYSIS

Before we proceed with conducting the analysis by culminating the elements of theories, operationalisation, predictions, case selection and material acquisition we will create a template for analysis which will put to practice all we have described so far to demonstrate the method of research conduct.

As such we shall start with the independent variable - the materials belonging to the correspondence through the ESM/EFSF/EFSM - analysing the material for each case we will have distinct documents for each national government as they all had separate dealings with their European partners through the ESM/EFSF/EFSM structures. First we will start by collecting and name the material that is used for the analysis of that particular case. As we have three separate elements of the intervening variable we need to analyse the material separately with different lenses. Firstly we will take a look at hard law.. As operationalised before one has to look at the technical aspects of the agreements and whether they were complied with. This means looking at fiscal targets, macro-economic developments and eventually policy-making reforms in line with creating a sustainable economic situation. Secondly after hard law comes soft law, here we aim to look at the 'good-will' of actors and primarily the national government involved with implementation, we look at initiation of discourse, policy-improvement through benchmarking or peer review, peer pressure and further increasing the institutional changes themselves. Likewise spillover has various expressions as we have vertical and policy-area spillover. When peers in a policy-making setting, like the national ministers in the Eurogroup, go beyond bare minimum to create the best possible collective result we can speak of vertical fusion. Likewise if various ministers from different policy areas become involved in the same decision making procedure policy spillover can occur. Thirdly we have differentiation of power in the institutional network, where we try to look for gains and losses in terms of power within a policy-making arena. As we are focused on the effects of the increased power of institutions on integration we will analyse the changes in power relations in both absolute and relative terms between actors. Having seen these processes we can thus take a look at the dependent variable for that particular case - factual Europeanisation (or integration) of the policy-making procedure of the specific case. This will be done by analysing statements while looking at the various indicators that are expressed in integration After which we can finally test the predictions we have laid out, as we have derived from theory that compliance will lead to certain results with regards to integration. We will try to see if they are true predictions (0,5 point deviation or less) or partially true (0,5 – 1 point deviation). For this we will first outline the scores of the five expressions followed by a table wherein we take a look at the predictions itself and the results.

4. LEGAL CONSTITUTION, RECENT DEVELOPMENTS OF EUROPEAN ECONOMIC GOVERNANCE

On 2 May 2010 the first Economic Adjustment Programme for Greece was created which was reached in conjunction with the creation of two new institutions, the EFSF and the EFSM. The EFSM is (ESM Europa, 2010) (treasurytoday, 2011) a bail-out fund created by the EU's Economic and Financial Affairs Council and financed by the financial markets as it allows the European Commission to borrow from the financial markets under a EU budget guarantee. Totalling €60 billion the EFSM bail-out fund is reserved for troubled European Union member states' economies and the fund is backed by 27 member states (plus the UK for 'severe' bail-outs). In function this institution is an arbiter between the financial market and the eventual recipient of the debt – the debt and its obligations that go along with it are still the responsibility of the receiving member state country.

On the other hand the EFSF is (ESM Europa, 2010) (treasurytoday, 2011) a Special Purpose Vehicle which aims to safeguard financial stability, at its core it is an emergency lending facility which is available to any Euro Area Member State (EAMS) requesting financial support. The EFSF will not issue bonds unless an EAMS loses its access to the capital markets or finds itself having to pay excessively high interest rates. The EFSF shareholders are all the Euro Area Member States and had at its inception a budget of €440 billion in commitments. However the EFSF is managed by the European Investment Bank (eib.org, 2016) and is controversially thus managed outside of EU law as it falls under management of a private Luxembourgian bank. However as it was more of a crisis management tool rather than the first resort it still served a function and was somewhat politically acceptable. In December 2010 however the controversy surrounding European bail-outs and the way the EFSM/EFSF was structured led to further discussions and brainstorming which resulted in the creation of the ESM.

The ESM is the incorporation of the EFSM and EFSF under the same umbrella by using the EFSM staff and organisation while also including €250 billion commitment from the IMF which in total would result in a €750 billion large temporary aid fund which was subject to European law unlike the EFSF (ESM Europa, 2010) (treasurytoday, 2011). The legal basis for this treaty was due to a two line amendment to Article 136 of the Treaty on the Functioning of the European Union. A new treaty was also created called the 'Treaty Establishing the European Stability Mechanism' (TFEU) which designed and described how the ESM was to operate. The predecessors (EFSF/EFSM) would from here on out only be functionally active up to June 2013 at which point it will not engage in new loans and will only continue and fulfil current obligations up to that time. Further revisions to the ESM came in the March 2011 EU summit where further Treaty amendments were made aiming to increase governance and funding capabilities for the institution. As of 1 May 2013 the treaty effectively went into force with a few further alterations made in the years after. Functionally active, the ESM continued with the tasks done prior by the EFSM/EFSF and provided financial aid to Cyprus, Greece and Spain – of which Greece is only the current active receiver of aid. To understand the context and amount of aid distributed and the chronology of the cases please see table 4.1. below

Table 4.1. Overview of distributed aid amongst European Union member states.

EU member	Time span	IMF	Bilateral	GLF	EFSM	EFSD	ESM	Bailout in total
		(billion €)	(billion €)	(billion €)	(billion €)	(billion €)	(billion €)	(billion €)
Cyprus I	Dec.2011- Dec.2012	-	2.5	-	-	-	-	2.5 ^a
Cyprus II	May 2013- Mar.2016	1.0	-	-	-	-	9.0	10.0 ^a
Greece I+II	May 2010- Jun.2015	32.1 out of 48.1	-	52.9	-	130.9 out of 144.6	-	215.9 out of 245.6 ^a
Greece III	Aug.2015- Aug.2018	(Proportion not completely decided)	-	-	-	-	(up till 86)	86 ^a
Ireland	Nov.2010- Dec.2013	22.5	4.8	-	22.5	18.4	-	68.2 ^a
Portugal	May 2011- Jun 2014	26.5 out of 27.4	-	-	24.3 out of 25.6	26.0	-	76.8 out of 79.0 ^a
Spain	July 2012- Dec.2013	-	-	-	-	-	41.3 out of 100	41.3 out of 100 ^a
Total payment	Nov.2008- Aug.2018	104.9	7.3	52.9	46.8	175.3	136.3	544.05

Source: ESM disbursement overview.

5. GREECE

5.1. INTRODUCTION

The most famous of all cases within the context of the European sovereign debt crisis is undoubtedly the one of Greece. After the 'oxi' referendum of 5 July 2015 (the no vote on the European proposal for further reforms) it became visible that the Greeks were fed up with the constant need to reform. They were also disheartened by the encroachment of the European and international institutions on their national sovereignty. Tensions over the situation of Greece have never been this high, with Greece's minister of finance resigning after he accused the European partners to be 'terrorists'. Greece is infamously the 'worst pupil of the class' with unfulfilled obligations and continuous further need for help. Indeed Greece could be considered an everything gone wrong/failure case in this regard.

5.2. LEGAL CONSTITUTION

As the Greek crisis unfolded and the situation tended to get worse despite outside help, the unravelling Greek situation led to Greece receiving three bail-outs with three accompanying Economic Adjustment Programmes, the 1st, 2nd and 3rd reform programs. However the 3rd program is not completed and will not be discussed. As fiscal consolidation and tax reform was a large part of the reform packages the aim is to properly analyse the way Greece complied to the agreements. The Memorandum of Understanding on the Specific Economic Conditionality will be consulted to determine what targets are to be met.

Starting with the **1st Economic Adjustment Programme for Greece**. The first measurements indicated that Greece's deficit would continue spiralling out of control due to the firing of large amount of public sector workers, who would in turn pressure unemployment spending while meanwhile decreasing GDP and reducing purchasing power and domestic spending. At the time of 2009 Greece had a deficit of 14% and it looked like the situation would only worsen due to the negative spiral of Greek non-competitiveness and oversized public sector. This meant much needed to change with this structurally unsustainable system and most of the changes had to be frontloaded - we can see this in the required target: over the period of 2010-2014 about 18% of the GDP has to be fiscally consolidated. The general overview of changes and targets is displayed in table 5.1.

Table 5.1 Macro-fiscal adjustment requirements in the First Economic Adjustment Programme for the years 2009-2014.

	2009	2010	2011	2012	2013	2014
	(in percent of GDP)					
General government balance, baseline	n.a.	-10.5	-14.2	-15.6	-15.9	-15.6
General government balance, with	-13.6	-8.0	-7.6	-6.5	-4.9	-2.6
Primary government balance	-8.6	-2.4	-1.0	0.9	3.2	5.9
Interest payments	5.0	5.6	6.6	7.5	8.1	8.5
General government gross debt	115.1	133.2	145.2	148.8	149.6	148.4
Current Account balance	-13.1	-10.8	-8.4	-6.9	-5.6	-4.3
Trade balance	-10.2	-7.3	-4.7	-3.2	-1.9	-0.6
Non-trade items	-2.9	-3.6	-3.8	-3.8	-3.7	-3.6

Source: First Economic Adjustment Programme for Greece (2010).

We can see that as described the targets for the government budget had a big deficit alongside the debt, with the debt increasing till 2013 and the deficit increasing annually. These targets were underpinned by tax revenue increases, expenditure reductions, structural labour reforms and financial market reforms. Excise taxes, pensions and public wages were targeted primarily and further outlined in the intervening variable. The actual Greek deficit fell from 15.8% in 2009 to 9.3% in 2011. However the main problems laid in the revenue administration and the expenditure control and tax evasion is still far too prevalent. As the recession unfolded terms of the programme have been readjusted. This leads us to the 2nd Economic Adjustment for Greece where new targets were set. These are visible in the table below.

Table 5.2 Adjusted macroeconomic features for Greece from the Second Economic Adjustment Programme.

	2009	2010	2011	2012	2013	2014
Real GDP (growth rate)	-3.2	-3.5	-6.9	-4.7	0.0	2.5
Final domestic demand contribution*	-3.6	-7.0	-10.0	-7.2	-1.4	1.5
Net trade contribution	3.1	3.1	2.8	2.3	1.4	1.2
Employment (growth rate)	-0.7	-1.9	-6.3	-4.8	-0.2	1.6
Unemployment rate (percent of labour force)	8.9	11.7	15.9	17.9	17.8	16.7
Compensation of employees, private sector per head	0.6	-0.3	-3.2	-13.0	-3.8	-2.2
Unit labour cost (growth rate)	4.3	-1.6	-1.0	-7.8	-1.3	-1.9
HICP inflation	1.3	4.7	3.1	-0.5	-0.3	0.1
HICP inflation at constant taxes	1.1	1.4	1.2	-1.2	-0.8	0.1
Current account balance (percent of GDP)	-14.3	-12.3	-10.3	-6.9	-5.3	-4.6
Net borrowing vis-à-vis RoW (percent of GDP)	-13.3	-10.6	-8.3	-4.8	-3.1	-2.4
Net external liabilities (percent of GDP)	-112.9	-101.9	-116.0	-88.1	-90.0	-89.6
General Government deficit (percent of GDP)	-15.8	-10.6	-9.3	-7.3	-4.6	-2.1
General Government primary surplus (percent of GDP)	-10.6	-5.0	-2.4	-1.0	1.8	4.5
General Government debt (percent of GDP)	129.3	144.9	165.3	161.4	165.4	162.1

Source: Second Economic Adjustment Programme for Greece (2012)

During the Second Economic Adjustment Programme the largest targets were related to reducing costs in the health-care sector, military sector and public administration. Alongside more property/wealth tax. These will also be further outlined in section on the intervening variable.

5.3. INTERVENING VARIABLE

5.3.1. HARD LAW

5.3.1.1. RATE OF COMPLIANCE

From the first Economic Adjustment Programme for Greece, there were numerous fiscal policies they had to adapt:

- Increase in VAT rates, which will yield 1,800 million in a full year (800 mil for the rest of 2010), this law was implemented and the achieved target was 480 million euros. Falling short significantly. However all the set legal requirements were accomplished.
- Reduction in the bonuses to pensioners for Easter, summer and Christmas, however keep in protection those more fragile pensioners in terms of finances, aiming to reduce a total amount of 1,900 million euros in a full year (1,500 million in 2010), this measure too was implemented but the financial targets were not met. With only 500 million raised, this target is far from achieved. This result will be discussed later on too.
- Reduction in the highest pensions with as goal to save 500 million for a full year (350 million in 2010), the pension changes to the highest pensions have been largely been implemented and mostly successful – culminating in 310 million over the period of 2010.
- Abolishing most of the budgetary appropriation for the solidarity allowance leading to a reduction of 400 million in a full year. See the other point on the contingency reserves, this wage bill change has fully met the target however as we see that the implementation of that part of Law 3845/2010 lead to a reduction of expenditure of 400 million.
- Further reducing public investment by 500 million euros compared to the plans, this too was implemented accounting for measures over 500 million in comparison with the 2010 level.

All these measures were adopted into the law named Law 3845/2010, ΦΕΚ 65Α / 06.05.2010, which was adopted on 6 May 2010. However another law based on fiscal consolidation, Law 3842/2010, ΦΕΚ 58Α / 23.4.2010 was also implemented on 23 April 2010 and implemented the following changes:

- Introduction of a progressive tax for all sources of income. This law entered in force as of January 2011 with tax rates ranging from 10 to 45%. This encompasses both income and assets.
- Introduction of a law abrogating exemptions and autonomous taxation provisions in the tax system, these implemented concessions were aimed at reducing law exemptions by a total of 800 million but the achieved target seems to be around 500 million euros.

All in all we see that these two laws encompassed the primary concerns that were presented with regards to fiscal consolidation for Greece and have thus led to proper compliance with the treaty as implementation happened smoothly. Having said that a troubling situation presents

from the first reviews on out – while the reforms are implemented they do not have the desired results with regards to the total numbers that are desired. Underachieving (in reality versus intention) alongside timely implementation means a score of 3 rate of compliance.

However diving into the Second Economic Adjustment Programme we see that Greece had to reduce pharmaceutical expenditure by at least EUR 1,076 million, in 2012, the biggest reduction (roughly 1% of GDP) of expenditure was to come from a comprehensive reform to pharmaceutical expenditure. The whole way (e-)prescriptions were to be priced, distributed and its belonging protocols were to be changed. With laws: 4052/2012, YG/151/29.02.2012, F42000oik2555/353/28.02.2012, YG/148/29.02.2012, Y4a/29.02.2012, F.80000/5368/1108/06.03.2012, 22435/06.03.2012, Y10/G.P. oik GY156/01.03.2012 and 681/B/08.03.2012. A massive amount of legislation heavily aimed to overcome the relatively high prescription costs for pharmaceutical drugs as Greece had the highest % expenditure. And these measures were relatively successful. Over the entire course of 2012 about 1 billion in expenditure has been reduced.

- Reduction in overtime pay for doctors in hospitals by at least EUR 50 million, this was addressed with Law 4051/2012. Credible statistics on the actual achieved reduced expenditure for this point are not readily available, but the law was however implemented with due diligence. However from the second (p. 36) and third (p. 35) review of the 2nd Economic Adjustment Programme can be deduced that the targets were not up to par yet despite its factual implementation.
- Reduction in the central government's operational expenditure, and election related spending, by at least EUR 370 million (compared to the 2012 budget), of which at least EUR 100 million in military-related operational expenditure., and at least EUR 70 million in electoral spending. This was implemented with Law 4051/2012, however some unforeseen changes in public administration made the reduction in expenditure not as much as desired.
- Reduction in the public investment budget (PIB) by EUR 400 million: this cut will be implemented through cuts in subsidies to private investments and nationally-financed investment projects. Reduction in PIB happened in law 4051/2012, furthermore Bank of Greece (2013) state that the budget has dropped by 6.8% and thus has complied with the target.
- Changes in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget and cuts on expenses, with the aim of saving at least EUR 450 million (net after taking into account the impact on taxes and social contributions). These have been observed and implemented in law 4051/2012. However due protest and several problems, the 2012 supplementary pension changes have not been implemented in full.

In general the rate of compliance once more is decent – however there is a discrepancy between implementation and achieved results. The double dip of the retracting economy leading to less tax revenue, which means higher tax rates to meet targets, which means the economy will shrink, etc. leads to a vicious cycle. This means that despite timely implementation not all targets were met, we can conclude that for the 2nd adjustment programme the targets generally were

timely implemented but not sufficiently complete. Giving them a score of three 3. Averaging all scores we see that there was a general compliance rate of 3.

5.3.1.2. NATIONAL COORDINATION EXPRESSION

In the First Economic Adjustment Programme for Greece we saw that political resistance to changes to the national coordination structure was strong in certain. One of the biggest problems with the Greek budget was its national tax evasion – reforms were introduced to combat this with a new bill that was to be introduced in February 2011. This was accompanied with the creation of the GAO (General Accounting Office) that was supposed to provide data on tax and internal expenditure. This GAO was supposed to present correct data on time and cooperate with the IMF, ECB and European Commission directly – aiming to give the international institutions more power in the policy making network. We see the adaptation of European austerity measures at a consistent pace though and in the face of protests it shows the significant political costs made by the Greek government to pull this through – meaning a score of 4 for a significant change in the national adaptation system. However the internal problems of tax collection, civil servant neutrality and political opposition led to many targets not being achieved.

5.3.2. SOFT LAW

5.3.2.1. OVERCOMPLIANCE

In the First Economic Adjustment Programmes we saw some signs that related to overcompliance. They had to for example introduce a:

- Reduction in the public wage bill by reducing the Easter, summer and Christmas bonuses, leading to a cost reduction of 1,500 million per year (1,100 million in 2010), and while the bill certainly was implemented – expenditure reductions were only around 400 million. Far lower than expected. We will return to this later.

We see that intention wise the compliance seems to be good, however the actual achieved results seem somewhat low. Likewise in the frame of implementation most of the targets that were implemented were timely or even ahead of time. Overall we see that there was intention to achieve all targets in the way law was implemented, however tax revenue was lower due to a failing economy. Regardless we see some signs of overcompliance and timely ahead of time implementation there were some signs of it with some intention, – meaning a score of 3 as intention without results is registered as a score of three.

From the letter of intent (2010) we can deduct the standardized response of the involvement of ECB and EC in policy-making when changes have to be made to the fiscal policy programme. This cooperation did come to fruition as we saw the creation of the institution called Task Force for Greece which provided technical expertise and policy advise as an agent of the European Commission. However the influence of external actors varied over the years, as Greece progressively retracts and falls under administrative pressure. Already within the Fifth Review Mission (European Commission, fifth review mission statement, 2011) we see this administrative pressure: "(...) However, the achievement of the fiscal target for 2011 is no longer within reach, partly because of a further drop in GDP, but also because of slippages in the implementation of some of the agreed measures. (...) As overall progress has been uneven, a

reinvigoration of reforms remains the overarching challenge facing the authorities". The atmosphere and basis of the cooperation between Greece and its partner seems to be that Greece is not lacking in intention or good-will but rather lacking in administrative capacity. Compliance was generally intended but not complete. The strains of administrative overburdening shows itself later on in Greek behaviour with no signs of overcompliance as reforms were already hard enough as it is meaning a score of 1. On average we see that overcompliance was somewhat present at the start but deteriorated. This represents itself in the average score of 2.

5.3.2.2. SPILLOVER

One of the best examples of spillover that was ever the result of economic programmes was the Task Force for Greece, which was result of the need of technical expertise in areas where there was none. This new institution, which was created during the First Economic Adjustment Programme for Greece, shows horizontal spillover as a new agency was created to deal with a crisis that was better tackled by further facilitating cooperation on a new level – such a concrete example of spillover where new institutions are created means a score of 5.

Years later from the Second Economic Adjustment Programme however we see attempts to cement further internal cooperation:

- And a key element of the second economic adjustment programme, with a strategic focus on areas such as: (...) and local government restructuring, and the establishment of a stable inter-ministerial coordination structure under the Prime Minister's Office.

Here we see that there were policy field crossing coordination attempts, attempts to tackle overarching problems by building bridges between separate departments. This shows us some horizontal spillover with a score of 3.

Post Second Economic Adjustment Programme we see in the Fourth Review Mission the fusion did not have much effect as the previous actors have been somewhat marginalized in their discussion of Greek policy making (2013, p. 105). Spillover did not occur much and interaction mostly happened through the channels created in the prior years meaning that the eventual impact of this spillover is reduced and results in a score of 2. The for spillover scores average to a score of 3,3.

5.3.3. POWER DIFFERENTIATION

Taking a look at the First Economic Adjustment Programme we see how much more significant the Council of Ministers has become as they indirectly influenced Greek policy making as the concerted efforts of the Eurogroup ministers dictated the multi-year adjustment programme for Greece, going further than Greece desired in terms of reforms (Statement By The Eurogroup (On Greece), 2011) showing a relatively power increase towards European actors and away from national actors meaning a score of 4.

Greece's partners showed a similar experience as stated by Olli Rehn: (European Commission statement by Olli Rehn, 2012): "Indeed Greece's international partners have made an unprecedented effort of solidarity to support Greece in its efforts to restore sustainability of its public finances, reform the economy and public administration, and thereby to return to growth and jobs." However this cooperation was not in inertia when it comes to power relations, as we see Greece had to further increase reporting efforts, further transparency and needed to further justify its policy results to the EFSM/EFSF (Eurogroup Statement on Greece, November 2012) showing that power slowly but surely started seeping towards the European arena as indirect (relative) power increases for the EFSM/EFSF meaning a power change score of 4. As both cases of power flux occurred upwards it presents again what postulated before, during the First and Second Economic Adjustment Programmes Greece lost relatively transferred power. For this reason we see the average score of 4 for power differentiation.

5.4. LIVING CONSTITUTION

Starting out in 2010 (IMF, Greece) we see that cooperation with the Troika and other national governments on fiscal and financial matters with regards to risk assessment and liquidity contingency plans have intensified. Various connections were created and a new institution called the Greek Loan Facility (GLF) was created to facilitate for pooling and disbursing the planned loans. This cooperation further intensified in 2011 with the creation of the Task Force for Greece (TGFR) which aimed at providing technical assistance on behest and expense of individual member states. However this cooperation between Greece and its partners wasn't completely smooth as interests clashed during negotiations continuously. This having said from 2012 on cooperation increased further. Observed was cooperation on the fields of public administration reform, health and social security reform, which increased policy integration to a certain extent. Outside of these official policy fields the TGFR helped alongside the EU and credit institutions to administer changes and monitor progress on credit flow to the real economy (Prime Minister Greece, 2012).

In general this trend continued during the First and Second Economic Adjustment Programme as cooperation was done from a voluntary perspective despite Greece's hard line on their national interests. Trust remained high as the Second Economic Adjustment Programme was relatively easily agreed upon on both staff level and supranational level. Assessment was that Greece complied in cooperation and the European partners felt that they had a say in forming their structural reforms and fiscal consolidation (Second Economic Adjustment Programme For Greece, 2012). We see that with the First Economic Adjustment Programme there generally was a very high rate of adaptation and compliance and even overreaching targets – meaning the dependent variable was upgrading there. For the Second Economic Adjustment Programme we

see the political optimism slowly fading as not only did they not try to expand on new policy, they slowly started complying less and we saw a higher rate of withdrawal/vacuous policy making with regards to compliance – meaning it was at the level of absorption here.

5.5. CONCLUSION

Like previously mentioned during the case, compliance was generally medium-high during the first two programs and we generally see nearly everything that was necessary was implemented leaving aside slight noncompliance later caused by lack of administrative capacity. In general we saw relatively high Europeanisation of fiscal policy-making as financial data and technical details were created in concert with the GLF, TFGR, EC, Eurogroup, etc. During that period we could characterize the Europeanisation of Greek fiscal-policy making as upgrading during the First Economic Adjustment Programme, which devolved into Absorption during the Second Economic Adjustment Programme. For these two programmes we can indeed see that implementation scores were higher during the First Economic Adjustment Programme versus the Second Economic Adjustment Programme, and this correlates with the rate of Europeanisation. We see this correlation further when we see lack of overcompliance during the Second Economic Adjustment Programme versus the First one – alongside lower compliance rate and less spillover occurring. Europeanisation is contingent on policy being actually being implemented with the involvement of European opinion. For the First- and Second Economic Adjustment Programme we however see the correlation between compliance and Europeanisation as in table 5.4 below with the scores of compliance and the results of Europeanisation. At the end of the Second Economic Adjustment Programme fiscal policy was at the stage of adaptation – a middle level of Europeanisation- a score reflective of the medium level scores achieved for compliance.

Table 5.4 Average results of compliance during the First and Second Economic Adjustment Programme

Expression average:	Compliance rate	National coordination structure	Overcompliance	Spillover	Power shifts
	3	4	2	3,3	4

And likewise the scores have also been summarized into scores for predictions as seen in table 5.5 below to gauge to what extent the predictions hold true for this case and how it reflects on our theory.

Table 5.5. Average scores per prediction for Greece for the First and Second Economic Adjustment Programme

Average scores per prediction	1	2	3
	3,5	2,7	4

As we can see in chapter 5.2. Greece was a turbulent case with scores highly differing between the first and second economic adjustment programme. The average scores represented in table 5.5. As Greece’s dependent variable is absorption we should expect a score around 3, however did not seem to happen. This is due to the effect of the First Economic Adjustment Programme leading to more integration than the Second one. We see that prediction one and three are

slightly true while prediction two falls outside the set boundaries. The reasoning for this is due to the discrepancy between the First and Second programme and will be further elaborated upon in the conclusion (Chapter 10) and discussion (Chapter 11).

6. IRELAND

6.1. INTRODUCTION

The situation of Ireland can best be portrayed a success case and the proud result of what can happen if the financial aid and reforms work as intended. Ireland was declared the first successfully recovered PIIGS country in January 2014, after a series of hefty reforms and budget cuts. Ireland received a total sum of 85 million euro during the period of 2010-2013. As of 1 January 2014 Ireland is the first successful PIIGS country to complete its programme and is no longer dependent on financial assistance with good prospects and good odds of self-sustainability.

6.2. LEGAL CONSTITUTION

Ireland reached an agreement with the Troika on 16 December 2010. However the financial aid came with certain requirements. Ireland would have to implement both fiscal and economic structural reforms aimed at creating a stable budget, reforming Ireland's labour market, product market reforms and auctioneering some of its state-owned assets. Alongside this were hefty reforms of the financial market which had to be downsized and restructured, a big deal for Ireland as they have over 2 billion Euros in yearly profits in the financial market (idaireland, 2016). To analyse the changes in policy provisions we need to take a look first at the technical data by taking a look at the Technical Memorandum of Understanding for Ireland, then following it with analysing how the interactor communication has changed alongside the national domestic procedure. The results are taken both from Eurostat and Irish government's financial databank. Below in table 6.1. we see the main performance criteria as posed in the Economic Adjustment Programme.

Table 6.1. Performance criteria for Ireland under the Economic Programme for the 2010-2011 period, amounts are in % of GDP.

	December 31, 2010	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
	Performance Criterion	Performance Criterion	Indicative Target	Indicative Target	Indicative Target
1. Cumulative exchequer primary balance ^{1/}	-15.3	-7.8	-11	-14.3	-14.6
2. Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by the central government ^{2/}	0	0	0	0	0
	Indicative Target	Indicative Target	Indicative Target	Indicative Target	Indicative Target
3. Ceiling on the stock of central government net debt	83.1	91.6	96.5	100	102.2

Source: Irish Economic Adjustment Programme.

6.3. INTERVENING VARIABLE

6.3.1. HARD LAW

6.3.1.1. RATE OF COMPLIANCE

Seeing the technical criteria set out in the (Technical) Memorandum of understanding, we can measure the Irish Government's adherence to these set targets. The Exchequer primary balance is the current account surplus of the government's main account. Furthermore the Memorandum of Understanding lays out the debt (maximum) and projected debt criteria as result of this program. However these general fiscal targets were for the 2011 year, for the general overview we have to look at the Economic Adjustment Programme.

- A reduction of at least €1,800m in public capital expenditure against existing plans for 2011 will be introduced. The initial Irish 2010 public capital expenditure was €18,19 billion (CSO, 2012) and the public capital expenditure for €16,34 billion (CSO, 2012) – a difference in expenditure of €1850 million. With the target reached on time with very close to the target numbers .
- A reduction of current expenditure in 2011 of at least €2,090m will be implemented. We see that over the period of 2011 there was a reduction from €60,6 billion to €57,4 billion in expenditure (€ 3,2 billion difference) . Not only was the target met, it went further than the initial targets. The planned target was 2010m and the reached target was 10m over. Since there was an excess created but not by intention it wasn't due to overcompliance but just due to circumstances.(Ireland Finance Ministry, Memorandum of Understanding, 2011)

We saw that in 2011 compliance was generally met as targets were achieved (or even overachieved) alongside requests to even further provide feedback upon their performance. The results for 2011's compliance thus result in a score of 5 for compliance as most targets were met ahead of time. Post 2011 the main fiscal (and labour) reforms were tied to Memorandums of Understanding from the Q4 quartile. 2011 Q4 MoU states the following requirements for fiscal changes in 2012:

- €1,500 million increased revenue through various tax increases, €600 million directly with €1,000 million carry over in 2013 – €1,600 million total, the carry over meant it wasn't due in in time however it was approved by the European peers as it took time to extract the new taxes – this means it was just in the nick of time. (Ireland 2012 Budget, 2011)
- €2,100 million reduced expenditure through lowering of current and capital spending, turned out to be €2,200 million. Complied, on time and slightly outside of the margin. (Ireland Comprehensive Report, 2012, p. 4)

- €2,000 million (minimum) reduced expenditure through lowering of current and capital spending, turned out to be €2,250 million which is slightly above target but that was due to positive windfall and not due to planning – however it was in due time and perfect compliance. (Ireland Budget, 2012, p. 4)
- €1,100 million increased revenue through various tax increases, actual realisation €1,250 million, it was timely and it was above target. (Ireland Budget, 2012)

The changes in 2014 were mostly timely and all met. This grants them a score of 4 for compliance in 2012. Furthermore the initial EDP (due to Irish excessive debt and deficit) agreement for rectification of the deficit was to have the deadline of 2014, however due to the agreements made with the new loans the expiration date has been postponed to 2015 – in which they are supposed to oblige by the SGP standard of 3% once more. We can see that in the National Recovery Plan the following fiscal projections were made based on the numbers and targets proposed thus far and can be seen in table 6.2.:

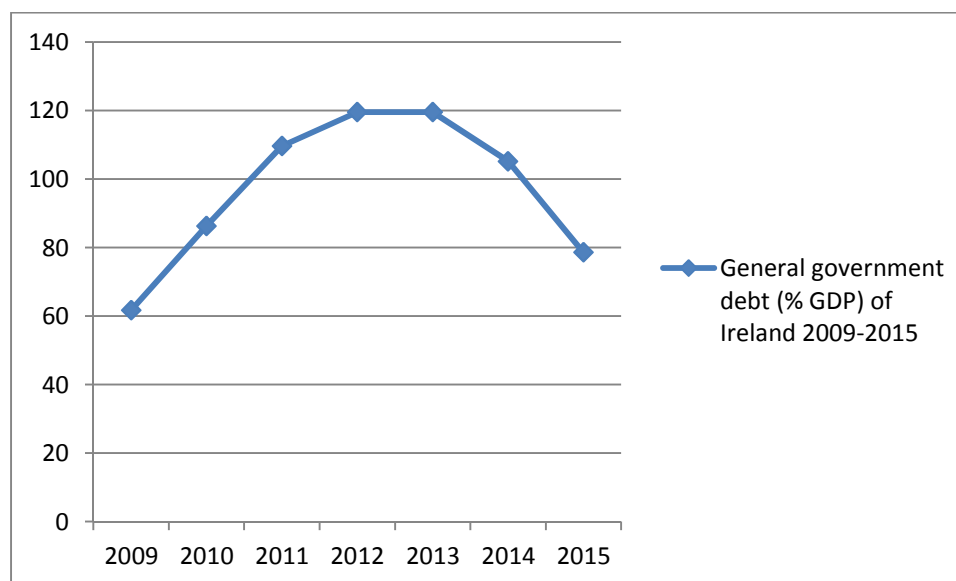
Table 6.2. Irish fiscal projections in the Economic Recovery Plan over the 2009-2015 period.

	2009	2010	2011	2012	2013	2014	2015
	level as % of GDP						
General government balance	-14.4	-32.0	-10.6	-8.6	-7.5	-5.1	-2.9
Primary government balance	-12.2	-29.0	-6.8	-4.1	-1.5	1.2	3.2
Interest expenditure	-2.2	-3.0	-3.8	-4.6	-6.0	-6.2	-6.1
General government debt	65.5	95.0	112.4	118.7	120.5	119.1	115.5

Source: Irish Economic Adjustment Programme

To determine to what extent these targets were met Eurostat was consulted and the following numbers were achieved by the Irish government (General Gross Government Debt, consolidated, Eurostat): 2009 – 61.8%, 2010 – 86.8%, 2011 – 109.1%, 2012- 120.1%, 2013 – 120%, 2014- 107.5%. 2015 – 93.8%.

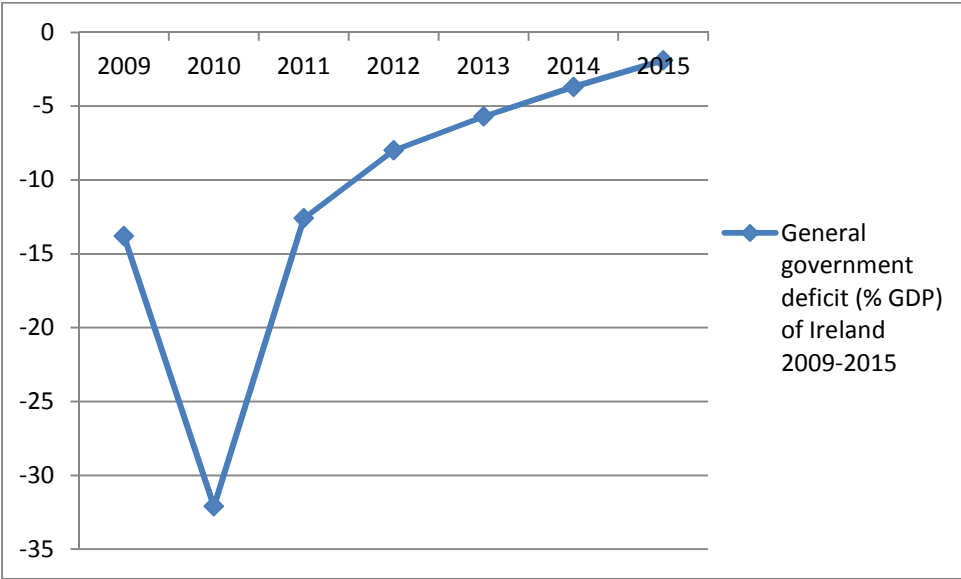
Figure 6.1. Actual achieved Irish public debt levels in % of GDP per year.



Source: Eurostat.

The Government deficit for the Irish government was as follows: In 2009 there was 13.8% deficit, in 2010 there was a 32.3% deficit, in 2011 there was a 12.6% deficit, in 2012 there was a 8% deficit, in 2013 there was a 5.7% deficit, in 2014 there was a 3.8% deficit and in 2015 there was 2.3% deficit. It can be seen in the figure 6.2. below – this concludes that the compliance was complete and the Irish did everything they could to avoid missing targets – including Irish requests for benchmarking and extra monitoring. Overall the scores of compliance are relatively high and averaged at 4,5.

Figure 6.2. Actual achieved Irish deficit levels in % of GDP per year.



Source: Eurostat.

6.3.1.2. NATIONAL COORDINATION ADAPTATION

In the letter of Minister of Finance of Ireland and Governor of the Central Bank of Ireland (2010) they address various changes made to the Irish institutional structure, one of these changes relates to changes in the national coordination system: In the National Recovery Plan there are various references (BES scheme reform, debt targets, budget) in how they planned their policy keeping European actors and requirements in mind alongside other European institutions (Stability and Growth Pact). Likewise The National Recovery Plan is built upon (and an improved version of the Joint Programme of Assistance) this plan not only lays out how the requirements are going to be met but also how they aim to base their new policy-making on desires of their European partners, this also shows the changes in the national coordination structure and grants them a score of 4.

The most telling change between the way actors conducted their business and communications was the timeliness and dedication of the Irish government(s) in meeting their targets. Where the first Irish government (FiannaFáil/Green) was more dedicated to the European solution the following Fine Gael/Labour government was more sceptic about this approach. Starting off in 2012 in the 10 February MoU: "(...) We have announced binding multi-year expenditure ceilings at the level of individual votes, and continue to work on strengthening the fiscal framework, including through forthcoming fiscal responsibility legislation (for which a draft is well advanced and which will align national law with requirements at the European level)."

Clearly the existence and anticipation of European policy is strongly embedded in the Irish policy making procedure and thus shows us there is a strong interconnection of the national coordination structure with the European institutions – on a level that is not vacuous but actually significant and engaging with European partners means it results in a 5. Likewise high scores for national coordination changes all around, averaging at 4,5.

6.3.2. SOFT LAW

6.3.2.1. OVERCOMPLIANCE

From the Economic Adjustment Programmes we saw a few requirements that were the target of overcompliance. In 2011 we saw this primarily in the following actions (according to Central bank of Ireland):

- Revenue measures to raise at least €1,400m in 2011 and an extra €620m in a full year will be introduced to the Houses of the Oireachtas. The total amount of revenue required by agreement will thus be €2020m. In the Irish Central Bank publication of Smyth & Hickey we however see that Ireland managed to create €3065m, exceeded the target by €1045m providing them a 150% achieved target. (Central Bank of Ireland, 2011)
- We can see that all the targets have been met in 6.3.1.1 and they were due on time. Furthermore there were examples of overcompliance. In 2011 Q4 we saw that all targets were being surpassed and all implementations were done ahead of time. All in all the banking report by the Irish central bank (2011) reaches a conclusion that for (over) compliance sake is completely correct: “In terms of the fiscal and budgetary performance, the fiscal consolidation targets for 2011 were achieved with all the criteria and benchmarks being met”.

These signs of overcompliance show a strong desire to overcomply resulting in a score of 4. To see how the Irish government communicated with these institutions we can turn to the initial letter of the Minister of Finance of Ireland and Governor of the Central Bank of Ireland (2010) as they address the contemporary ECOFIN president, Eurogroup president, Commissioner for Economic and Financial Affairs, and the president of The European Central Bank. In this letter we also see:

- “Not only did they supply the necessary Memoranda (Technical, Financial, Specific Economic Conditionality), they immediately provide a National Recovery Plan which is outside of required scope of legislation. “

In the 2011 budget speech by Minister of Finance Brian Lenihan (Budget, Financial Statement, 2010) we can see that there was overcompliance and adaptation to European partners: “In the National Recovery Plan, we have set out the timetable for achieving this adjustment over the next four years. These targets are reflected in the Joint Programme of Assistance. Because the European Commission has more conservative forecasts for the medium-term, we have been given an extra year to reach the 3% deficit target required under the Stability and Growth Pact. But this changes neither our targets nor our timetable for reaching them.” And: “There is a limit to burden-sharing. As I said in this House last week, there is simply no way this country, whose banks are so dependent on international investors, can unilaterally renege on senior bondholders against the wishes of our European partners and the European institutions.

That course of action has never been an option during this crisis.” We both see overcompliance in overachieving the targets and implanting changes according to the spirit of the law as they try to overcommit to reaching the desired result. In general the Irish so far have been very liberal in adhering to new requirements and applying new changes where we see that on nearly all fronts they tend to overcomply sometimes even going as far as suggesting fiscal changes themselves – meaning it is a 5 for overcompliance,

Furthermore we see that the national coordination systems have adapted to keep track of the European desires, now that the Europeans have a stake in the well-being of the Irish financial situation – a significant change in the national coordination structure scoring resulting in a 5. Perhaps this overcompliance was done to secure the trust and show a sign of commitment to the European/International bankers that took on the risk of bailing Ireland out as revealed in the communication between Central Bank/Parliament/Troika. Overall we see significant dedication to overcomplying and overachieving results which is represented in an average score of 4,7.

6.3.2.2. SPILLOVER

First from the letter of the Minister of Finance of Ireland and Governor of the Central Bank of Ireland (2010) we find that alongside the changes we find new horizontal policy-field fusion from the labour and business reforms that were packaged into the agreements. These agreements also give more say to the European partners. This grants them a policy spillover score of 3.

From 2012 in the 10 February MoU we see: “(...) We have announced binding multi-year expenditure ceilings at the level of individual votes, and continue to work on strengthening the fiscal framework, including through forthcoming fiscal responsibility legislation (for which a draft is well advanced and which will align national law with requirements at the European level).” Now multiple year expenditure ceilings are being set and thus future domestic policy is also made in agreement/according to the guidelines created at the European level and thus albeit slightly and indirectly transfers more competences to the European level resulting in a spillover of 3. On average for spillover we saw a score of 3.

6.3.3. POWER DIFFERENTIATION

From the letter of the Minister of Finance of Ireland and Governor of the Central Bank of Ireland (2010) we see that they strengthen the importance of the European partners in the institutional framework as they pay great care to making sure they remain satisfied and granting power ultimately upward meaning there is an absolute power increase at the European level. Likewise issued provisions in which permanent European surveillance is increased and strengthened as the Prudential Capital Assessment Review is set up (in co-operation with the Commission, ECB and IMF) and thus giving the international actors a foothold in the door. This results in a score of 5.

In 2012 we also see the legitimacy/importance of EU regulations increasing and thus having a power drift towards the European side of the power spectrum in a relative way – meaning a power drift score of 4 (First Review). We also see the strengthening of the international/European actors versus Ireland as they get to co-decide in future Irish policies – a relative strengthening of international/European actors is a power transfer score of 4 (First Review). The 15 November 2012 MoU says the following things: “Consult ex-ante with the

European Commission, the ECB and the IMF on the adoption of policies that are not included in this Memorandum but that could have a material impact on the achievement of programme objectives.” Controlling and reviewing the progress is important and Ireland shows that they will give full insight to their situation as they agreed to and show full compliance with anticipation meaning a score of 5 for compliance but also that the international/European institutions have gained legitimacy and power in the institutional setting meaning relative gains towards the international/European actors and resulting in a score of 4. In total we see an average score of 4,5 for power differentiation.

6.4. LIVING CONSTITUTION

The following yearly statements were made by Irish ministers of Finance – regarding the upcoming year and with mention of the previous years in their address to the parliament on the state of Europeanisation and cooperation.

2012: “The task of this Government is to regain control over Ireland’s fiscal and economic policies (...) I am afraid the FiannaFáil/Green Government gave the purse away again this time last year as fiscal autonomy was conceded to the IMF and the European authorities.”

2013: “Importantly, the emerging deficit outturn for 2012 is within the 8.6% of GDP limit set under the EU/IMF Programme. This means the annual deficit limit set as part of the Programme will be more than achieved for the second year running. In addition all eight end-quarter Exchequer primary balance and Central Government net debt targets set as part of the EU/IMF Programme have been met, most recently for end-September.”

2014: “The help from the IMF and the European authorities came at a high price. Hundreds of onerous conditions were attached to the loans. Ireland lost its sovereignty and the Troika came to Ireland.”

2015: “That is why I am targeting a deficit of 2.7% in Budget 2015, ahead of the required target of 2.9% of GDP. I think that it is appropriate to go beyond our requirements under the Stability and Growth Pact in order to build upon the progress made to date.”

And equally from the other side, the latest Post-Programme Surveillance (spring 2016) from the European Union side echoes the sentiments with regards to fiscal/financial integration:

“Looking to the next budget, according to the government's July Summer Economic Statement, additional spending and tax cuts of around EUR 1 billion in 2017 will be consistent with compliance with the provisions of the Stability and Growth Pact.” (...) “The execution of the MIP-relevant (Macro-economic imbalance procedure) Council recommendations is monitored through PPS (post-program surveillance). Overall, the fifth PPS review concludes there have been advances in addressing the relevant Country Specific Recommendations(CSR)s adopted by the Council in 2015. “ (...) “The reform of the budgetary process – a key element of the Programme for a Partnership Government – gives greater coherence to the budget cycle, while also enhancing parliamentary engagement. However, it does not address the Commission's repeated calls for a reduction in discretionary changes of the expenditure ceilings. On the contrary, the budget reform seems to provide additional opportunities to adapt expenditure ceilings to the public finance situation, in particular with the introduction of a Mid-Year Expenditure Report.”

In general the sentiment seems to be that Ireland has partially agreed to cooperate on a higher level with regards to many of its policy-making decisions.. We see the (initial) Irish government having a high amount of trust in their partners and transferring the FiannaFáil/Green

government “gave the purse away” to “IMF and European authorities”. While the initial FiannaFáil/Green government could be categorized as ‘Transforming’ in the sense of Europeanisation – the following Fine Gael/Labour government was still very cooperative but lost some of its enthusiasm and was more realistic in avoiding significant costs for the Irish people, alongside trying to renationalise the coordination structure could be categorized as ‘Upgrading’ in terms of Europeanisation.

6.5. CONCLUSION

From the theory we postulated that countries with a high Europeanisation status would have high expressions for the indicators. Summarization of the scores for Ireland can be seen below in table 6.3.:

Table 6.3. Average expressions scores for implementation of the provisions of the case of Ireland.

Expression average:	Compliance rate	National coordination structure	Overcompliance	Spillover	Power shifts
	4,4	4,5	4,7	3	4,5

To see how these scores average out per prediction (prediction one being compliance rate and national coordination structure, prediction two being spillover and overcompliance and prediction three being power shifts) please see table 6.4. below where we see the results for the predictions and we can measure them against Europeanisation. We expect higher scores across the board considering Ireland’s Europeanisation status, upgrading, which means that the scores ought to range between 3,6 – 4,5. As we can see from the table 6.4. below we see that definitely is the case as scores highly resemble the expected pattern and thus the theoretical relation seems to be correct for the case of Ireland.

Table 6.4. Average scores per prediction for Ireland

Average scores per prediction	1	2	3
	4,5	3,9	4,5

7. PORTUGAL

7.1. INTRODUCTION

Portugal is similar to the other cases in that they are a European country with non-competitive industry, unsustainable finances and received financial aid from the Troika. However there are severe differences between the Portuguese case and the ones previously mentioned – namely the nature of the crisis. The cause of the problems is not necessarily the sovereign debt crisis but rather the external debt crisis and disproportionate outstanding balance of payments. The root of this problem seems to lie in both Portugal's primary exports saw a general cumulative decline in demand (f.e. shoes and textile) and the common currency, the Euro, taking a hit in its value made Portugal less competitive (Cabral, 2013).

7.2. LEGAL CONSTITUTION

The following main goals were set out over the years in terms of fiscal readjustment, see table 7.1. (European Commission, The Economic Adjustment Programme for Portugal, 2014)

Table 7.1. Fiscal adjustment targets for the Portuguese economic adjustment programme over the period of 2010-2013.

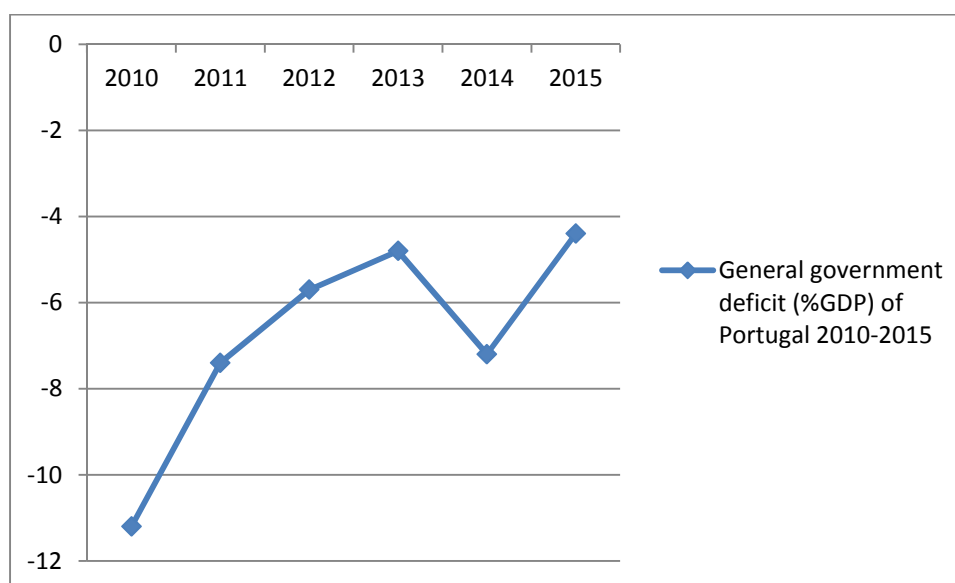
	2010	2011	2012	2013
Balance - Programme purposes	-9.8	-4.0	-6.0	-4.5
Balance - EDP	-9.8	-4.3	-6.4	-4.9
Budget deficit, net of one-offs	-9.2	-7.3	-5.8	-5.3
Structural balance	-8.5	-6.0	-3.3	-2.4
Primary balance	-7.0	-0.3	-2.1	-0.6
Structural primary balance	-5.6	-2.0	1.1	2.0
Fiscal adjustment	0.2	3.6	3.1	0.9
Fiscal effort (EDP definition)	0.3	2.4	2.7	0.9

Source: INE, European Commission services.

To reduce the Government deficit to below EUR 10,068 million (equivalent to 5.9% of GDP based on current projections) in 2011, EUR 7,645 million (4.5% of GDP) in 2012 and EUR 5,224 million (3.0% of GDP) in 2013 by means of high-quality permanent measures and minimising the impact of consolidation on vulnerable groups; bring the government debt-to GDP ratio on a downward path as of 2013 (European Commission, Memorandum of Understanding On Specific Economic Policy Conditionality of Portugal, 2011). To see the full Portuguese program of changes to be made please see Annex 3.

The Government has to achieve a general government deficit of no more than 10,068 million euro in 2011. Looking at graph 6.1 below, we see that the targeted 10,068 million was not achieved as the reduction in deficit was significant (from ~20 billion -> 13 billion) but it was still about three billion over target. By implementing the Budget Law for 2011 and 2012 several expenditure cuts and revenue increases were to be implemented.

Figure 7.1. Nominal general government deficit for Portugal during the years 2010-2015.



Source: Eurostat.

The fiscal consolidation components are outlined in annex 2, the huge list of required fiscal reforms are primarily to be done in 2011 and 2012 and detailed analysis is presented there, the general findings will be summed up here. As the fiscal-structural changes are numerous and one could write a whole research on PREMAC administrative program of the privatisation schemes itself - we will try to analyse these distinct fields from each other to determine how implementation went and to what extent there was compliance. These categories were chosen to be as distinct as possible and to be possible to analyse their rate of compliance and the way legislation was implemented. Analysing the reforms per category exposes weaknesses some sectors might have while some sectors might be easier to reform. Most of the required changes fall under five categories, all of these categories will be discussed for 2011 and 2012 and to see what compliance rate there was. These are the five categories:

- Administrative reforms, changing the institutional framework.
- State owned enterprise (SOE) management and privatisation related reforms.
- Data publishing changes, administration, information gathering sharing and reporting.
- Governance changes at creating a more streamlined and less redundant public administrative structure.
- Tax law and -collection reforms

All the required reforms as part of the Economic Adjustment Programme and Memoranda of Understanding will thus be discussed per category. For the full analysis please see Annex 3.

7.3. INTERVENING VARIABLE

7.3.1. HARD LAW

7.3.1.1. RATE OF COMPLIANCE

The technical requirements laid out for Portugal in the year 2011 were divided in five parts and are discussed separately. For the general of the analysis please see the scores in table 7.2. below.

Table 7.2. Compliance with reforms for Portugal in the period of 2011-2013

	2011	2012
Administrative reforms	3	2,5
State owned enterprise (SOE)	2	3
Data publishing changes	3,5	3
Governance changes	4	2
Tax law and -collection reforms	4	4
Overall	3,3	2,8

For the full analysis of rate of compliance please see Annex 3, for the sake of brevity only the results will be discussed. For administrative reforms we saw a clear deterioration due to bureaucratic stress with fading scores. SOE reforms seemed to improve over the years. Data publishing changes decreased slightly and eventually stabilised. Changes with regards to governance drastically got worse as bureaucratic stress caught up. And for tax law reforms we see a stable score of 4 along the ways. For the year 2011 there was a score of 3,3. For the year 2012 an average score of 2,8.

For 2013 Portugal had still several carryover tasks, the outstanding reforms as seen in the Eighth and Ninth review they were to: implement a new administrative system, shared service system, to start working with the new reporting requirements on fiscal risks and etc. A few tasks were still postponed to 2014 like the need for more auditors. In general most of the programme so far has been implemented at the end of 2013 and as in the previous years the deficit should be closing. In the Technical Memorandum of Understanding it is stated that the Portuguese government has to achieve a general government deficit of no more than EUR 5,224 million in 2013. Seeing graph 6.2 we see that Portugal achieved a general government deficit of 8,245 million at the end of 2013. While the deficit is becoming smaller as reforms happen it is still far above target, which is caused by various reasons which mostly present on the revenue side of the scale as non-tax revenue decreased (Eleventh Review, p. 11). This means that they again did not reach full compliance on terms of budget issues, granting them a score of 2 (decreased deficit, but ramping up debt).

Agreements with regards to SOEs, pension reform (Law 11/2014) and annual reporting has been implemented as agreed and on time and were thus properly reached, they managed to achieve this target on time – granting them a score of 3. However the primarily stressed administrative capacity comes to light as many of the requirements for 2013 got delayed,

postponed or even annulled.

Two measures for reorganisation of decentralisation were delayed until 2014 Q1, alongside reducing budget entities and increasing tax auditing staff – measures which also were delayed to 2014 Q1. Some measures were even postponed to a new plan for 2015 like the quarterly reports on duration and costs of tax cases. While the plans were not cancelled, they were not met and postponed and that means a score of 2.

For 2013 we see a low compliance rate with mostly an even mix of delayed and achieved targets alongside a few annulled targets. This grants them an average compliance score of 2,3 for 2013 as a lot of implementation was delayed or in some cases even cancelled.

And finally in 2014 was set that Portugal would finally reach a deficit of 4521 million euros. This was not the case, a strong fall back occurred due to lack of implementation during the summer of 2014. Portugal ended up with a nominal deficit of 12402 million euros, heavily above the required maximum. A lot of factors were of importance in explaining the process of worsening during the period of 2013-2014, the struggle between the Constitutional Court and the Portuguese government with new policy, local elections in 2013 provided more resistance to the national government, internal struggles in the largest opposition party, resignation of the financial minister Vitor Gaspar, largest proponent and creator of austerity measures, etc. In decentralised local and regional arenas we have seen reversing of public policy but also at the level of national government as public administration reforms were reversed. Despite having a nominal GDP growth, the Portuguese government had to spend a lot of money on a (one time) investment in the public transport sector and Banco Espírito Santo – meaning the Commission compensated for these one offs in their estimation. Without this spending the Portuguese deficit would be nearly 4% lower (Reuters, Portugal Deficit, 2014). The 2015 Post Programme Surveillance (Winter) calculated a deficit of 3.4% when these one-offs are excluded – making them meeting the structural goals with one offs excluded meaning a score of 3 for compliance. Excluding these investments there were some progress with regards to fiscal-structural reforms with SOEs, PPPs, revenue administration, etc. Everything for the final term was implemented granting them a score of 3 for the five categories. Overall the political crisis spilt over from 2013 and we still see that rate of compliance is relatively low like in 2013, granting them a score of 2 for rate of compliance. Overall over the years we saw an average compliance score of 2,9 for Portugal in general.

7.3.1.2. NATIONAL COORDINATION SYSTEM

For the national coordination structure we see from the press statement of the First Review Mission for Portugal (2011) that the program is greatly on track and Portugal has implemented the requirements imposed from In the press statement of the Third Review Mission to Portugal (2011) we see likewise that staff level agreements on technical issues caused domestic policy makers to make a drastic change to readjust the 2011 budget. Overall we see a strong influence of the way the national government anticipates European demands and tunes its policy to its partners' desires and strongly cooperates with their partners in the process of policy-making meaning it results in a score of 4 for national coordination structure.

In 2012 a relatively similar trend happened. Where the lack of administrative capacity and political resistance slowly starts showing, we generally see in the Fourth, Fifth, Sixth and Seventh Review Missions to Portugal that things are rather “broadly on track despite

headwinds". In the press statement of Fifth Review Mission (2012) it becomes more abundant that there was shortfall between agreement and reality as "reaching the new deficit targets will require additional consolidation efforts. Agreement was reached on a range of permanent spending and revenue measures to underpin the deficit target in 2013" likewise a quartile later after the Sixth Review Mission (2012) it was noted that revenue collection has been far weaker than expected and that the mission thus supports Portugal's intention of instead permanently further decreasing expenditure. However the involvement of the European partners in readjusting the targets plays a crucial role as we see that the mission and European Union plus its member states influence Portuguese policy making indirectly through cooperation in the Council, with the Commission, etc. A priori policy making on the national Portuguese level seems to anticipate European demands to a certain extent. But as seen in the constitutional court and opposition however the influence of partners is not as strong as in the prior year granting them a score of 3 for national coordination system changes.

Over the period of 2013-2014 the close cooperation with the various actors showed that Portugal anticipated various political desires, the Portuguese became more hard-pressed on austerity despite not having a history of austerity. These changes to the fiscal-structural and financial market were made to meet future objectives as seen in the IMF conference call on the 10th review of the Portuguese Economic Adjustment Programme, policy with regards to tax revenue and 10-year treasury bond yields were implemented to adapt to international desires showing some form of change to the national policy making arena. However this change was give and take due to the vested national interests still posing resistance (with opposition party and constitutional court for example), meaning only some adaptation took place. Granting them a score of 3. In total the average resulted in a score of 3,3.

7.3.2. SOFT LAW

7.3.2.1. OVERCOMPLIANCE

Over the course of the Portuguese Economic Adjustment Programme in 2012 we saw that for the five categories multiple expressions: Administrative reforms – there were two cases of overcompliance as seen in compliance controls and DGITA into AT merger yet also one case of vacuous implementation and a few cases of untimely adaptation - the commitment however was present despite shortfalls as we saw various departments completing reforms without too much resistance from parliament and opposition parties showing a strong commitment to improvement and cooperation meaning there is a detectable spirit of the law/overcompliance as there was significant intention with average results. This means there was a score of 3. Administrative and institutional changes had general compliance with regards to institutional changes but while the legislation was adopted the adaptation of system was slower than desired. No overcompliance was present in this section meaning a score of 1. For State Owned Enterprises and other agency or privatisation related here was little to no follow-up or overcompliance with the reforms, meaning it's a mere 2 as there was some intention to do well but nothing occurred. For data administration and publishing, general reforms happened well-enough as most targets were met and wherever possible it was done ahead of time. The data was always correct and sometimes ahead of time. There seemed to be little overcompliance with the Portuguese government not overstepping their administrative boundaries. On the topic of governance Portugal tried to achieve its targets ahead but that rarely happened - this means that they get a score of 2 for overcompliance. For tax law and collection we see clear overcompliance

with the Portuguese government trying to be very timely and correct with their achieving of the targets granting them a 4 due to their significant intent (despite not always being always as successful). On average it resulted in a score of 2,4 for 2012.

From 2013 onward there was very little overcompliance. While 2013-2014 Portugal was still in the Economic Adjustment Programme we saw less requirements for changes and the same political crisis in both years.

For overcompliance we see no commitment to go past what is necessary and we see no intent nor any over performance granting them a score of 1 for this section. So for 2013 the conclusion is that there was little to no- overcompliance meaning it earned them a score of 1. Over 2012 and 2013 it shows an average score of overcompliance of 1,7.

7.3.2.2. SPILLOVER

From 2012 onward we saw the rise of cross ministerial cooperation through integrated services in attempt to combat fragmentation (Economic Adjustment Programme, Spring 2012) – alongside this Information Technology (IT) integration a further strengthened cooperation across policy areas is implemented to increase transparency and throughput of several wide policy areas such as revenue administration. These however are only weak signs of horizontal spillover. For slight vertical spillover one can see that the technical mission requested by Portuguese authorities during end of 2012 showed increased cooperation between vertical actors as the mission showed intense cooperation and dialogue between various Portuguese ministries and European and international actors. The mission acted as a sort of counselling opportunity and was further seen in the various conference calls between the representative of the mission to Portugal and IMF staff where they get the task of readjusting numbers after Portugal lacked the technical expertise. Thus we see a weak form of vertical spillover, meaning a score of 2.

7.3.3. POWER DIFFERENTIATION

Initial changes to power relations came about with the letter of intent issued to the European actors and IMF where the Portuguese minister of Finance and Governor of the Portuguese Central bank announce that if necessary: “We stand ready to take additional measures that may be needed to meet the objectives of the economic programme and will maintain a close policy dialogue with the Fund, including to consult in advance of any necessary revisions to these policies.” (IMF letter of intent 2011) which shows the (public) financial sector’s willingness and new attitude towards cooperation with European actors. To a certain extent this means that the national coordination structure has made a change with regards to policy making as their new procedure has to include any amendments and/or recommendations with the Fund (which represents international actors). This cooperation is concretized through monitoring of quarterly and annual data alongside benchmarks (IMF letter of intent 2011). The implication of having such tight knit cooperation with regards to technical details of your policy means that the power of supranational institutions relatively increases, meaning a score of 4.

From 2012 onward the institutional network and its power relations saw very little change compared to the previous year as European partners are still important in the power network. Over the more turbulent period of 2013 and 2014 inter-actor communication between Portugal’s government and European and international actors remained positive in mutual

expectations despite Portugal's internal struggles. Overall predictions were that economic recovery would swiftly return and thus also revenue increases with it, likely ending the deficit. In the Eighth, Ninth, Tenth, Eleventh, Review Mission's press statements (2013) repeatedly is stated that early signs of recovery can be spotted and they repeat that Portugal needs to overcome its difficult internal struggles with strong internal political and social dialogue. In the Teleconference calls between IMF staff and journalists with regards to Portugal's 11th review of their Economic Adjustment Programme we see that "the IMF is there to support its members and its membership, always. This is regardless of the formal engagement. So our official line is exactly this that, you know, it is up to the country authorities to choose what form of engagement they would like, and the IMF is there to support their decision. "Generally cooperation was smooth and caused Portugal to make its own decisions albeit informed by technical IMF and/or European staff. In general we can state that relative power over the years has drifted to the EU and the IMF with their help in policy-making, but any absolute gains are not made. Meaning a score of 4 for changes in power relations. Going for the total average of 4, finishing the analysis of compliance for Portugal we will now proceed to the living constitution.

7.4. LIVING CONSTITUTION

With the resignation of Prime Minister Socrates in 2011 due to the (right wing) opposition in parliament rejecting his austerity measures a vote of no confidence was established, leading to new elections. In the new elections the centre-right won a clear mandate and this centre-right party has a relatively Eurosceptic attitude. In comparison after the Economic Adjustment Programme had ended, new elections took place – and these were telling for the position of Europeanisation Portugal was at now because: "Despite getting into bed with hardened Eurosceptic Communists, Mr Costa promised not to jettison his pro-European principles and to notionally abide by the stringent fiscal targets imposed by Portugal's former creditors in Brussels" (Telegraph, Portugal Constitutional Crisis, 2015).

Even in times of hardship during the political crisis of 2014 (Democratic Audit, 2015), we see attempts to further Europeanise fiscal policy making. For Europeanisation of financial policy the Portugal advocates the inclusion of international institutions in their policy process:" In anticipation of the European Central Bank's comprehensive assessment, to be conducted this year in the context of the Single Supervisory Mechanism, Banco de Portugal will continue to vigilantly monitor the banking system, ensuring its supervisory standards remain in line with international best practice." In general we see that Portugal has made very significant costs both financially, institutionally and politically to not only adapt but also upgrade their policy-making structure. There was high trust in the European and International actors and that showed from multiple press statements and their governance of the crisis. We see that the system slightly adapted in terms of benchmarking and anticipation of the opinion of partners is regarded highly. This means that in terms of Europeanisation we can state that they are somewhere between adapting and upgrading but leaning more towards upgrading as significant costs are made.

7.5. CONCLUSION

For the Portuguese results of compliance we see more surprising results, with relatively timid scores as compliance wasn't exceedingly in line with postponed targets and not completely met goals. Likewise there was little overcompliance as the Portuguese government did not have

much room or political capital to work with. However what we did see was that power did transfer and European partners were held in high regard and likewise the national policy coordination structure adapted itself to an extent to further coordinate and cooperate with the European partners during policy making. This leads us the following scores as seen below in table 7.3.

Table 7.3. Average expression scores for compliance rates for the Portuguese Economic Adjustment Programme

Expression average:	Compliance rate	National coordination structure	Overcompliance	Spillover	Power shifts
	2,9	3,3	1,7	2	4

These earlier discussed resistance organs lowered the score for the national coordination structure however it was still a relatively high score compared to the other compliance expressions. This is the same with power shift, as Portugal was more than willing to cede power to European actors combat their fiscal problems. That said and done we see relatively low (compared to other cases) scores for compliance rate, spillover and overcompliance. To see how that translated to scores for the predictions please see table 7.4. below.

Table 7.4. Average scores per prediction for Portugal.

Average scores per prediction	1	2	3
	3,1	1,9	4

Portugal’s integration status leans between adaptation and upgrading meaning that the score would have to fluctuate between 3 and 4. Like discussed in chapter 7.3. we will thus use 3.5. as a reference point and we thus see that prediction 1 and 3 indeed fall inside the norms. Prediction two, on soft law and integration, however does not hold true. We will elaborate on this further in chapter 9 and 10.

8. SPAIN

8.1. INTRODUCTION

While Spain's economic adjustment criteria had some deficit targets which they had to reach, the primary focus was on restructuring and recapitalising their banks. The deficit targets will be taken into account - but to see what the rate of compliance is we have to look at the way they implemented their financial sector reforms - most importantly in the plans they created for altering and strengthening the regulatory and supervisory bank resolution frameworks. By focusing on these financial- and fiscal changes we can gauge the extent to which these slightly related policy fields changed. Some of the primary materials produced by the Spanish Case were the Spanish Financial Sector Adjustment programme, the Macroeconomic-Imbalance Procedure recommendations, Memorandums of Understanding, European review missions, yearly recap documentation by the Spanish government and other communication between the Spanish government and the European institutions/IMF.

8.2. LEGAL CONSTITUTION

The general macro-economic targets that were laid out were with regards to deficits, while Spain has been under the scrutiny of the EDP ever since 2009 (European Commission, Commission Opinion on excessive deficit in Spain, 2009) as was estimated by the Commission that Spain's public deficit would reach a 6.2% in 2009 and 5.7% in 2010. Over the years Spain had to take corrective action such as implementing a new FSOB mechanism (Fund for the Orderly Restructuring of the Banking Sector) and in an effort to reduce deficits. However as Spanish public finances became unsustainable due to their links with the underperforming Spanish banking sector, Spain requested help officially in June 2012. As a new economic paradigm emerged from the negotiations the following targets were set with regards to deficits over the coming years (European Commission, Spanish Memorandum of Understanding, July 2012):

- 2012 – 6.3%

- 2013 – 4.5%

- 2014 – 2.8%

However the public finance reforms there were also many financial sector reforms the Spanish government had to implement. Hence attention will also be paid to the financial sector reforms and the government's participation in reforming and creating proper supervision and benchmarking. An important part of this was the new financial management fund (FROB) that was to come into effect. To restructure the financial sector the FROB Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring) was created, tasked with determining which banks were in trouble and which were not. To do this Spanish banks became categorized in four groups with the following requirements (European Commission, Spanish Memorandum of Understanding, July 2012):

Bank changes:

- Group 0, no change as they are banks that are not in danger.
- Group 1 FROB covered banks.
- Group 2, non FROB banks in stress that cannot resolve their issues and need state aid.
- Group 3, non FROB banks in stress that can solve their issues privately without state aid.

Group 0 will not be a subject for further description as they don't involve any state aid and thus are not relevance for this research.

Group 1 banks are already absorbed by the FROB structure.

Group 2 is non FROB covered but need immediately need aid to remain functional.

Group 3 is outside of the FROB as well but do not require immediate aid.

Three groups will receive aid in succession (group 1 then 2 then 3). Furthermore the following has to be done with regards to financial reforming:

- Early and timely creation of restructuring plans and sharing of information.
- Group 1 and group 2 need government's plans on restructuring before approval, this plan has to minimise the costs of the taxpayers.
- The Spanish government has to protect customer deposits when restructuring the banks.
- Pay levels for executive and supervisory board members have to be capped (for state banks).
- The bank resolution will have to be further upgraded.
- All this legislation will be submitted at the end of August 2012.

To see the full adjustment programme for Spain, please see Annex 4.

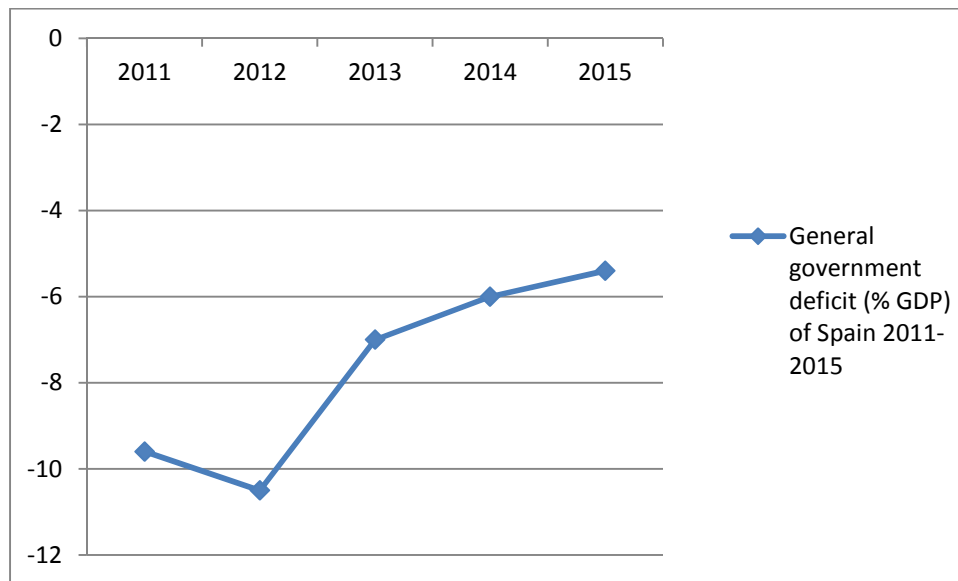
8.3. INTERVENING VARIABLES

8.3.1. HARD LAW

8.3.1.1. RATE OF COMPLIANCE

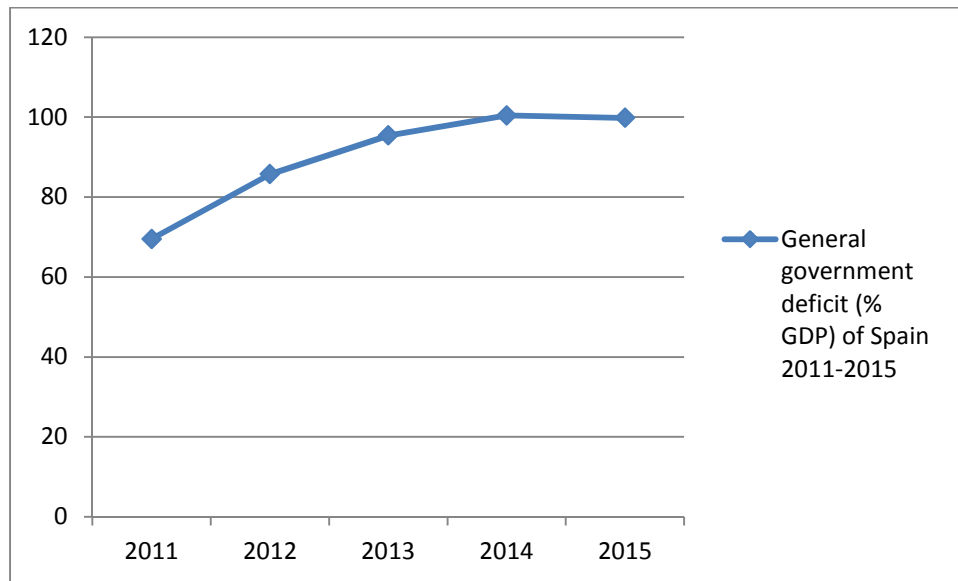
To see the rate at which there was compliance with the treaty in the form of its implementation we will take a look primarily at the fiscal targets they had to achieve. The Spanish government was forced to correct its excessive deficit before the end of 2014 and had to adhere to the SGP terms (3% deficit, 60%/GDP debt). While they were in the EDP earlier, adjustments were made due to the unstable bank sector and the impact it had on the construction/real estate part of the Spanish economy which is relatively speaking larger than in most countries. This readjustment led to the new targets being set for the following years: 2012 – 6.3%, 2013 - 4.5%, and 2014 - 2.8%. These targets became readjusted however after/during the first Economic Adjustment programme - predictions were set to 6% deficit for 2013 and 6.4% for 2014. This was due to "very tax-poor growth" and a "subdued recovery of the labour market" which means that, long story short, there were major revenue shortfalls and rising interest payments. In the figures below we see the Eurostat data on achieved deficits for each year. The rate of compliance for fiscal compliance generally was well-intentioned actions with some targets met albeit not everything was achieved. This grants them a score for 3 for compliance.

Figure 8.1. Spanish general government deficit for the period of 2011-2015.



Source: Eurostat.

Figure 8.2. Spanish general government gross debt over the period of 2011-2015.



Source: Eurostat.

For the specific adjustments that have to be made to governance and legislation we see that in the light of the government demanded changes to financial and fiscal systems the following requirements were set out as per Memorandum of Understanding (2012) within the Economic Adjustment Programme. The bank recapitalisation legislation/agreements were mostly left out as they were to be done by central bank/subject banks. Thus we see that Spain had to:

- Provide data needed for monitoring the entire banking sector and of banks of specific interest due to their systemic nature or condition. This wasn't always done up to the requirements that were set out. The reports were submitted timely.
- Introduce legislation to introduce the effectiveness of Subordinated Liability Exercises (SLEs), including allowing for mandatory SLEs. This law was implemented under Royal Decree Law (RDL) 24/2012 and had to be done by mid-August. The law officially came into effect on August 31 which is just behind schedule but not too far.
- Upgrade of the bank resolution framework, i.e. strengthen the resolution powers of the FROB and FGD. Likewise this change was implemented under RDL 24/2014 at the end of August-2012 and was slightly behind schedule.
- Prepare a comprehensive blueprint and legislative framework for the establishment and functioning of the AMC. Likewise this change was implemented under RDL 24/2014 at the end of August-2012 and was slightly behind schedule.
- Finalise a regulatory proposal on enhancing transparency of banks. This plan was made and introduced during the BoE 2012/8 (Boletín Oficial del Estado, national gazette). Finished at the beginning of October it was slightly delayed as the deadline was end of September. The margin was only a few days.

- Transfer the sanctioning and licensing powers of the Ministry of Economy to the BdE. This requirement was also timely covered under RDL 24/2012.
- Propose specific legislation to limit the sale by banks of subordinate debt instruments to non-qualified retail clients and to substantially improve the process for the sale of any instruments not covered by the deposit guarantee fund to retail clients. While this reform was due by (end) February-2013, it was already implemented with the RDL 24/2012 law. Thus being far ahead of time.
- Amend legislation for the enhancement of the credit register. As the requirement for this reform was to be due by March 2013 we have to look at the history of this amendment. On October 2012 the first draft was presented to the BdE which was later improved and finalised in the new Circular 1/2013. The actual concrete changes were only finally implemented in May 2013 – which is slightly behind schedule. Seeing however the timeliness of the preparation it is more of a problem related to the burden on the administrative capacity rather than good-will.

Overall we can see that compliance was complete with only a few minor slip ups here and there with time frames. Most of the changes were implemented in the RDL 24/2012 package and were completely focused on complying with the Memorandum specifications. Clearly showing a high rate of compliance, despite a few situations where timeliness was lacking. This means that for compliance rate they gain a score of 3 (due to the few time slip ups). We see that there was intention to over perform as seen with the legislation for subordinate debt instruments and SLE legislation.

This attitude of compliance transitioned into 2013 well. At the end of 2013 after the fifth, and thus final, review the EC and ECB issued a final statement. They mentioned that compliance with the Memorandum of Understanding was complete and it had a satisfactory result (EC & ECB Statement on Fifth Review, 2012). Showing the rate of compliance was generally timely and within their expectations, meaning this results in a score of rate of compliance of 4. Meaning an average score of 3,5.

8.3.1.2. NATIONAL COORDINATION

Furthermore it shows changes to the national coordination structure as a new independent Fiscal Council was to be created (and became created) which aimed to centralise professional labour and financial services as these were too fragmented prior to the crisis. The creation of this council allows the national policy making system to adapt to the new EFSF requirements and better coordinate the reforms, meaning a very strong change in the national coordination system and resulting in a change of 5.

8.3.2. SOFT LAW

8.3.2.1. OVERCOMPLIANCE

This same Vice-President Rehn issued another statement nearly a month later lighting some insight on his thoughts on the Spanish Structural Reform Plan. Even he admits that the new Structural Reform Plan goes beyond the country specific recommendations issued to Spain showing Spain's significant intention to overcomply with the recommendations, meaning a score

of 5 (as these significant intentions did generally timely come to fruition). This intention to over perform was seen with the legislation for subordinate debt instruments and SLE legislation been ahead of time and overachieving.

8.3.2.2. SPILLOVER

However formally the fiscal system received changes as well, in a joint statement made by Spanish Minister of Economy and Competitiveness Luis de Guindos and German Finance Minister Wolfgang Schauble they underline how a new rule on budgetary balance has been written into the Spanish Constitution with the advice of German Minister of Finance Schauble. Showing how horizontal cooperation was increased due to the requirements posed under the EFSF Memorandum of Understanding, the cooperation however was vacuous as the law was drafted by the Spanish government and however received advice on its working. A vacuous yet slight spillover means it gets a score for 3 of (horizontal) spillover. (LaMoncloa, Joint Statement German and Spanish Minister, 2012).

This sentiment of horizontal cooperation was further strengthened by the joint statement issued by Spanish Minister of Economy and Competitiveness Luis de Guindos and French Minister of Economy and Finance Pierre Mischon one day later (Mineco, Joint Statement by Luis de Guindos and Pierre Mischon, 2012), where they stated that they aimed to resolve the Spanish, but also European, financial problems on a supranational level. This was necessary to restore trust to the Eurozone but also specifically the Spanish economy alongside the Memorandum of Understanding. We see a form of centralisation and horizontal spillover, where the integrated economies of the Eurozone rely on a higher political organ to coordinate and remedy the economic issues. This ECB supervisory organism will have absolute competences to interfere in a domestic national system meaning they got absolute power, meaning a power centralisation score of 5. For horizontal spillover this also means a score of five as a new organ of the ECB was created to tackle the financial crisis, that being said the council is not completely specifically focused on Spain but the Spanish situation and EFSF agreement was a major catalyst. On the topic of the adapted national legislation (RDL 24/2012 as mentioned in the prior paragraph) the European Commission's Vice-President Olli Rehn drafted a press statement (Vice-President Rehn on the adoption of Spain's banking decree, 2012) where they reveal that this document was created in cooperation between the Spanish government, the European Commission and various Spanish banking sector partners showing us further horizontal spillover as cooperation has increased and thus also the involvement of external actors in the making of domestic laws, this results in a score of 4 for horizontal spillover as there is significant involvement.

8.3.3. POWER DIFFERENTIATION

Since the primary distribution of money came from the EFSF and all money was granted from Eurozone country, there is a larger emphasis on the communication between the Eurogroup and Spain than the IMF and Spain. Looking at the communication and press statements that came from the Eurogroup we see that while the “ Spanish government will retain the full responsibility of the financial assistance” (Statement by Eurogroup, July 2012) they will need to adhere to conditionality which conditionality “consists of bank-specific measures, including in-depth bank restructuring plans in line with EU State aid rules and sector-wide structural reforms that embrace segregation of bank's problematic assets, and the governance, regulation and supervision of the banking sector” (Statement by Eurogroup, July 2012). De facto

empowerment was given to existing EU regulation and was emphasized by the Eurogroup, meaning there is relative increase in power to European supervision of the Spanish financial (and indirectly fiscal) system, a relative change of power towards centralisation means a score of 4 for power changes.

Furthermore the overall monitoring, and thus cooperation, with Spanish policy making has increased in the wake of the EFSF Memorandum. As the program comes to an end on 23 January 2014, the EC & ECB will continue to monitor Spain's financial and fiscal situation for years to come, showing a relative power increase for a longer period of time leading to a power increase score of 4. These two instances of power differentiation show an average score of 4.

8.4. LIVING CONSTITUTION

To see how policy-making progressed due to the creation of the ESM we will take a look at the way policy-making is regarded by the Spanish government and how they co-operate with international and European actors, Like operationalised in the dependent variable, we need to take a look at the amounts of trust, desire to cooperate, perception of efficiency, etc. We can see that cooperation was necessary in the eyes of the Spanish government in their presidential address where they talk about the newfound international cooperation on fiscal and financial matters (LaMoncloa, 2011): "There cannot be areas lacking regulation, excessive risk cannot be allowed" (...) "we need a form of European economic governance that is demanding in terms of public deficit control, the prevention of structural imbalances and the competitiveness of each one of the economies that make up the EU and the Eurozone". And: "(...)Cooperation between countries, regional organisations and all world powers in an open world that we do not want to close again".

The attitude shows that even in 2011 there was desire for further policy co-ordination and co-operation. This is mirrored in the following statement: "Banking Union? We have approved Banking Union. I have been in Brussels a great deal, I have to be there. There we only talk about integration and union. It is a little sad to then come back to my country and hear talk of exactly the opposite. Banking Union may be an issue that many people are not interested in, but for the supervisor of the largest Spanish banks, and indeed the smaller ones, to change from the Bank of Spain to the ECB is a change in the Constitution of the first order. (...) Talk is now of Fiscal Union. I don't know if we will end up having Fiscal Union or not, but I, of course, am in favour of it."

And likewise we saw a statement from the Spanish Government (LaMoncloa,)in 2015:

"Spain, traditionally committed to European integration, could only take part in this initiative from the full conviction that the best resource we have in Europe to tackle global challenges is to continue taking steps to forge a closer union, as a mainstay of the strength of the common project and the fundamental principles on which it is based. For that reason, this government has sought to contribute by offering proposals to ensure the smooth operation of the Economic and Monetary Union and enhancing the democratic legitimacy of the union, particularly in areas such as the coordination of economic policies, job mobility and Fiscal Union."

Overall the impact the existence of the ESM and the cooperation with the European partners under the programme seems to have led to serious changes in the Spanish decision making procedure. The fundamental structure has changed with permanent European involvement and likewise the degree of information transfer and trust between actors is high. This means it at the level of transformation of Europeanisation of (fiscal/financial) policymaking.

8.5. CONCLUSION

As Spain had a predominantly bank and financial sector focused programme, the fiscal targets were also included with some of the Spanish government's bank legislation to measure compliance. In general we saw relatively high compliance with the agreement from Spain's side which is in line with theory as we theorized that their transformation would achieve high scores of expression. This is made visible in table 8.1. below.

Table 8.1 Average expression scores for compliance rates for the Spanish Economic Adjustment Programme

Expression average:	Compliance rate	National coordination structure	Overcompliance	Spillover	Power shifts
	3,5	5	5	4	4

Spain was very cooperative with the European partners and this attitude was very well received. Spain even went as far as actually transforming their policy making structure by adapting their constitution to be more flexible to allow radical reforms. In general here we see all of our predictions being correct, where a higher score for compliance expressions leads to a higher rate of Europeanisation and this has been confirmed as Spain has altered their decision making structure completely in the wake of their financial crisis. The scores for the predictions ended up being as follows (see table 8.2.).

Table 8.2. Average scores per prediction for Spain.

Average scores per prediction	1	2	3
	4.3	4,5	4

Based on the expectation corresponding with Spain's integration status (transformation) we ought to see very high scores across the board for all predictions. (4.5 and upwards). While Spain has relatively high scores for all three predictions it's not as high as we theoretically expected given them the result of mostly true.

9. CYPRUS

9.1. INTRODUCTION

Cyprus' banks held and still hold a large amount of financial capital that is not of domestic origin and thus the country is very susceptible to international financial shocks. During the Eurozone crisis a large amount of foreign capital was withdrawn leaving Cyprus in a problem scenario as a large part of its economy is built on the banking sector. Thus Cyprus requested financial aid on 25 June 2012 and received a sum of 10 billion euros to restructure its banking structure. The most crucial years for reform of policy were 2012 and 2013 and will be the main focus for measuring compliance.

9.2. LEGAL CONSTITUTION

The main documentation for the Cypriot case is the Memorandum of Understanding on Specific Economic Policy Conditionality. The goals for the Cypriot programme set out in this Memorandum are to increase the GDP primary surplus to 3% in 2017, 4% in 2018 and to hold steady for a few years afterwards to come. This is to be done by various tax increases and by reductions in expenditure which are primarily focused on reducing public sector wages. A wider scope of these fiscal-structural changes also related to the field of PPPs, healthcare reforms, revenue administration, etc. From the MoU we can extract the main fiscal targets set for Cyprus in accordance with their recovery. For a brief overview for the general targets see table 9.1 below. These targets were set out in the Economic Adjustment Programme page 47.

Table 9.1 Public Finance targets for Cyprus over the period of 2012-2016.

% of GDP	2012	2013	2014	2015	2016
GDP (% real growth)	-2.4	-8.7	-3.9	1.1	1.9
Fiscal targets (primary balance)	-	-2.4	-4.25	-2.1	1.2
Headline balance	-6.3	-6.5	-8.4	-6.3	-2.9
Structural balance	-6.7	-5.4	-5.1	-4.4	-2.5
Consolidation measures by year	0.3	4.8	1.7		
- Expenditure measures	0.1	2.2	0.7		
- Revenue measures	0.2	2.6	1.0		
Debt	85.8	109.5	124.0	127.9	123.9

Source: Economic Adjustment Programme for Cyprus.

While debt wasn't primarily going to be tackled due to Cyprus' high deficit, the primary goal was to get real GDP growth back on track and to make the deficit fall under the targets presented under the SGP once more. We see that from 2016 on Cyprus was supposed to successfully be in line with SGP legislation once more. To reach those targets rigorous reforms for both banking and fiscal consolidation are presented and as we are more interested in the fiscal aspect we will primarily discuss those.

9.3. INTERVENING VARIABLE

9.3.1. HARD LAW

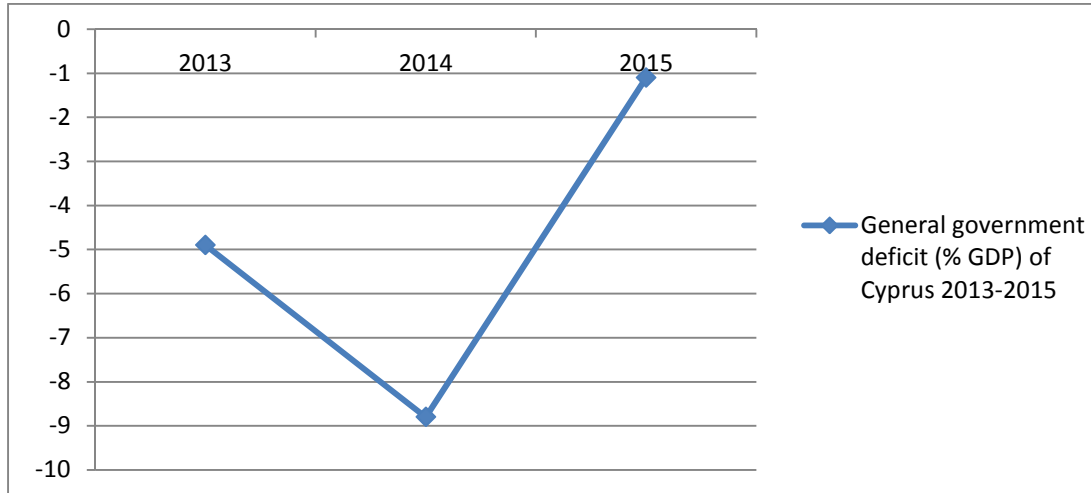
9.3.1.1. RATE OF COMPLIANCE

Taken from the Cypriot Memorandum of Understanding of Specific Economic Policy Conditionality (2012). Cyprus had to achieve a general government primary deficit of no more than 395 million euros (2.4% of GDP) in 2013. To achieve this the following reforms were to be implemented.

- Increasing the statutory corporate income tax rate to 12.5%. The law was approved by the House of Representatives (HoR) in April 2013.
- Increasing the tax rate on interest income to 30%. The law was approved by the HoR in April 2013.
- Increasing the bank levy on deposits raised by banks and credit institutions in Cyprus from 0.11% to 0.15% with 25/60 of the revenue earmarked for a special account for a Financial Stability Fund. The law was approved by the HoR in April 2013.
- Undertaking by June 2013 a reform of the tax system for motor vehicles, based on environmentally-friendly principles, with a view to raising additional revenues, through the annual road tax, the registration fee and excise duties, including motor fuel duties. The reform will take into account the related study of the University of Cyprus. Compliant with delay, the study and eventual policy disagreed on the amounts.
- Completing the increase in fees for public services by at least 17% of the current values. Expenditure measures. Compliant already adopted prior to MoU signatures
- Reducing the expenditure on various housing schemes by at least EUR 36 million by consolidating and streamlining the schemes for the displaced and the Comprehensive Housing Scheme, discontinuing the special grant for acquiring a first residence and ceasing the provision of loans and loan guarantees related to house construction and acquisition under all government-administered housing schemes. We saw compliance as the Council of Ministers adopted legislation in April 2013 to discontinue the special grant for acquiring a first residence and ceasing the provision of loans and loan guarantees related to house construction and acquisition under all government-administered housing schemes, with immediate enforceability.
- Streamlining the Easter allowance to pensioners by limiting the benefit to pensioners with a monthly per household income of at most EUR 500. Compliant - The law was approved by the HoR in April 2013 and published on the Cyprus official gazette on 30 April 2013 with an implementation clause 3 months after the publication on the gazette. The law entered into force on 1 August 2013.
- Implementing a scaled reduction in emoluments of public and broader public sector pensioners and employees as follows: EUR 0-2,000: 0.8%; EUR 2,001-3,000: 1%; EUR

3,001-4,000: 1.5%; above EUR 4,001: 2.0 %. Compliant - The law was approved by the HoR in April 2013 and published on the Cyprus official gazette on 30 April 2013 with an implementation clause 3 months after the publication on the gazette. The law entered into force on 1 August.

Figure 9.1 Cyprus' deficit as % of GDP for the period of 2013-2015.



Source: Eurostat.

Unlike the prior Cypriot presidency, the new presidency (from 2013 on out) is far more cooperative and receptive to international cooperation (more on that in the next chapter). We see timely and proper implementation ahead of time we see correct data submission and adherence to the targets to the letter. Likewise they even requested further benchmarking and supervision with correct implementation – this leads to a score of 4.

As most of the fiscal adjustment reforms were centred in 2013 for this programme, we can mostly focus on the need to achieve certain deficit targets as set out in the Memorandum of Understanding (2014). For 2014 and 2015 the fiscal targets were 483 million (3.1% of GDP,) in 2014 and 258 million (1.6% of GDP) in 2015. This is however concerning the primary government balance – for the general government balance they had to achieve no more than 8.4% of GDP for 2014 due to one offs. Looking at figure 9.1 we can see that indeed the general government deficit was excessive in 2014 but that was, as previously said, due to the need to compensate for one offs (singing fees for gas exploration which were necessary and resulted in heightened capital expenditure), thus we see that outside the one-off we see a more comforting primary deficit. The primary deficit became a primary surplus in 2014 as they managed to obtain a 2.6% of GDP primary surplus versus the required 1.3% of GDP, likewise including the capital expenditure in the primary deficit we saw that Cyprus had to have a maximum deficit of 8.4% which was not achieved as they went 0.4% of GDP over it with a 8.8% of GDP general government deficit. In general there was target achievement that was more than expected and data provided was timely and sufficient (Seventh Review Programme for the Economic Adjustment Programme of Cyprus, 2015)- meaning a score of 4 for compliance and an average score of compliance of 4.

9.3.1.2. NATIONAL COORDINATION ADAPTATION

In 2013 we see an interesting initiative that came at the end of the programme – The Support Group for Cyprus (SGCY). The SGCY aims to alleviate any administrative deficit by “mobilising and coordinating the technical assistance (TA) requested by the Cypriot authorities to help implement structural reforms under Cyprus’ macroeconomic adjustment programme set out in the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU)” (SGCY, First Activity Report, 2013). A similar initiative as created for the Greek case – the SGCY aims to lessen the administrative burden and grant TA whenever possible to maximize target achievement for Cypriot reforms. Relevant to fiscal administration we saw that the Cypriot government requested a European resident expert to be embedded in the Ministry of Finance who concerns himself with overseeing Budget System Law and the implementation of Fiscal Responsibility legislation. Likewise we see further European (Commission) involvement in the Cypriot revenue administration where two TA missions aimed to improve tax compliance by assisting the Financial ministry with Commission expertise (we see something similar with IMF involvement with assignment of IMF representative Mr. Vincenzo Guzzo, IMF Cyprus press release in 2013). We clearly see a larger involvement in domestic policy making and even more importantly – initiated from the national side of the arena. This shows adaptation of the national coordination structure with a score of 5, as there was strong engagement and coordination with the European Commission (and agents) during the policy making process. This is in line with the general adaptation undertaken by the Cypriot government granting them a justified average score of 5.

9.3.2. SOFT LAW

9.3.2.1. OVERCOMPLIANCE

The first iteration of Cypriot – European cooperation started off on bad terms as best described by Euractiv (2012) who said that "it's hard to see how it [the process of negotiations on the dispute] can go on then ... so we really have to get it done before July 1 [date when Cyprus will undertake Presidency]'. However, the statement represents nothing but empty rhetoric, desperate to revive a staggering negotiation process on the solution of the inter-communal dispute. The somehow uncomfortable reality is that, for EU, Cyprus still remains a problem." An agreement for the Financial Aid was made post president election, in which a more cooperative party rose to power. This more cooperative party managed to conclude an agreement with the various financial partners and agreed to the Memorandum of Understanding we just discussed, besides those requirements Cyprus went slightly further: they initiated a proposal to implement Terms of Reference which aims to create an anti-money laundering framework for example alongside other measures (Eurogroup statement on Cyprus, 2013). From the uncooperative former attitude they went to proper compliance alongside significant overcompliance – we see that these Terms for example were timely implemented and thus it results in a score of 5 for overcompliance. This was due to changes to the presidential position (BBC Cyprus Election, 2013). For the general 2013 ratio of overcompliance we see a similar pattern to the rate of compliance (chapter 9.3.1.1.) where most of the laws were implemented ahead of time as laws were adopted force by April 2013, sooner than required and published in the National Gazette by 1 August 2013. Alongside that we see a general overcompliance due to dedication to achieve proper targets meaning it results in a score of 4 .

In 2014 we clearly see overcompliance in the part of rigorous reforms due to increased efforts to increase tax revenue administration and an unexpected economy recovery (Eight Review of Economic Adjustment Programme for Cyprus, 2015). In general the rate of compliance was very high as primary deficits were always better than required and leaving the one-off capital expenditure out of the equation we see overcompliance to meet the required targets, there was significant outcome as a minor deficit requirement ended up in a significant surplus in 2015. In general there was target achievement that was more than expected and data provided was timely and sufficient (Seventh Review Programme for the Economic Adjustment Programme of Cyprus, 2015)- meaning a score of 4 for compliance. Likewise there was significant overcompliance with some intent behind it – meaning a score of 4. Overall averaging the programme they receive a score of 4,3 for overcompliance.

9.3.2.2. SPILLOVER

The serious involvement of Cypriot’s peers in the national policy making in 2013 shows the effect of horizontal spillover– to a large extent decisions are being made, and have to be made, by larger member states as to best solve the crisis which shows a significant sign of horizontal spillover. Likewise we see an interesting initiative that came at the end of the programme – The Support Group for Cyprus (SGCY). The SGCY aims to alleviate any administrative deficit by “mobilising and coordinating the technical assistance (TA) requested by the Cypriot authorities to help implement structural reforms under Cyprus’ macroeconomic adjustment programme set out in the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU)” (SGCY, First Activity Report, 2013). A similar initiative as created for the Greek case – the SGCY aims to lessen the administrative burden and grant TA whenever possible to maximize target achievement for Cypriot reforms. Granting them a 4 for vertical spillover and thus an average score 4 for spillover.

9.3.3. POWER DIFFERENTIATION

In 2013 we see an absolute power transfer with a score of 5 as competences are transferred as a European Commission agent is permanently embedded in the policy making process with legislative power. In 2014-2015 we see continued support of the Cypriot government by the SGCY, the revenue administration and Fiscal legislation still saw supervision from various European actors (SGCY, Second Activity Report, 2015). Over the period of 2014-2015 we see increased Central Bank – IMF communication and financial policy coordination (IMF Transcript of Press Briefing Cyprus, 2014). Likewise throughout 2014 and 2015 we see continued influence of IMF on policy making as they need reach staff level agreement on policy reforms (IMF Transcript Conference Call on 4th Review Cyprus, 2014). While no new changes in terms of power differentiation, policy spillover and national coordination structure changes the general direction of the 2013 year changes still apply here.

9.4. LIVING CONSTITUTION

To rate at which level of fiscal policy making Cyprus is will partially be deducted from primary sources from statements made by officials from the European Commission or Eurogroup. This alongside the Cypriot government’s response shows the stage of Europeanisation that Cypriot’s fiscal policy making is in. Showing the grip and influence Europe has gained on the budget

creation in Cyprus is clearly visible in the following case. In the context of when a consensus on the bail-out programme was reached the European Commission issued the following statement (European Commission, European Commission statement on Cyprus, 2013): *“(On reaching a consensus on a bail-out programme) However, it was not possible to conclude negotiations on a programme with the previous Cypriot government.”* Here we see that the previous government stood firm against European influence in their fiscal policy making which made cooperation hit a road block. However post 2013-presidential election the Cypriot attitude changed with the new government, where influence from outside was allowed into the policy-making procedure. Prior to this election the (then) Cypriot president said (Cyprusmail, Troika handed compromise proposals, 2012): “We would either choose the catastrophic scenario of disorderly bankruptcy or the scenario of a painful but controlled management of the crisis”. Yet still did not manage to find agreement with the international partners. European influence on policy-making was clearly visible from 2013 on out in multiple occasions like the capital controls issue, the bail-in of non EU depositors, etc. We saw likewise from their European peers. As European actors deemed it necessary to create a 13 billion Euro package while Cyprus could only readily muster about 7 billion Euro – the Cypriot authorities were not pleased with this desire. However Huffington Post reports (2013) that the European partners suggested Cyprus to sell a large part of its gold holdings for this purpose. While a dramatic request, the one to counter this request was the European Central Bank as they saw it was detrimental to Cyprus’ financial well-being. While the proposal was blocked – it shows the level of power the Europeans have gotten over Cyprus’ fiscal position as discourse happened far above Cyprus’ national level. This is further cemented when seen by the actions of the German finance minister as underlined by the London School of Economics (2013). They underline how the German finance minister, supported by the northern allies, ‘blackmailed’ Cyprus with a take it or leave it deal. And “(...)Germany, being the leading economic power in the EU, with the support of other northern European countries that aspire to its successful export-led economic growth model, has been the country effectively setting the guidelines for EU members in need of financial assistance. “ We can clearly see that Europeanisation of Cyprus’ fiscal policy was completely transformed at a European level with the European institutions becoming more involved with fiscal-policy making. Likewise we saw more, unwanted, influence from European partners on Cyprus’ decisions. For the most part this leads to the conclusion that Cyprus’ Europeanisation status is Transformation.

9.5. CONCLUSION

The programme years we have deduced the following scores for the expressions of our intervening variable. See table 9.2 below to see the average scores over the years of the programme.

Table 9.2. Average expression scores for compliance rates for the Spanish Economic Adjustment Programme

Expression average:	Compliance rate	National coordination structure	Overcompliance Spillover	Power shifts
	4	5	4,3	4

Overall we see that post-2013 Cypriot presidential election the attitude towards European cooperation and integration has drastically altered. It resulted in much higher general scores for all expressions compared to other cases. The scores for the predictions are as follows:

Table 9.3. Average scores per prediction for Cyprus

Average scores per prediction	1	2	3
	4,5	4,2	5

Like we found in chapter 9.3., (fiscal) policymaking has completely been transformed over the course of the programme as the ESM was introduced, this should express itself in high scores. And we have found this for the case of Cyprus, while the results were contingent on the new cooperative legislation the introduction of ESM cooperation did lead to increased Europeanisation and thus we find the correlation, stemming from the predictions, to be confirmed.

10. COMPARISON OF THE FINDINGS

10.1. INTRODUCTION

The basis for comparing the countries will be along the lines of the predictions that we have construed in chapter 2.6. From the analysis (chapters 5 through 9) we received scores of indicators which were ranked based on the classifications listed in chapter 3.2. (the operationalisation). The central elements of indicators are tied to a nominal gradient ranging from 1 through 5 with 1 being the weakest and 5 being the strongest form of that element. As these programmes last multiple years we aim to look at the development over the year and assign a score, or multiple scores if possible, per year per expression. These expressions then get averaged which gives us the result.

10.2 COMPARISON OF THE EXPRESSIONS

The scores before averaged are seen below in the frequency table 10.1 which were derived from averages

Table 10.1 Average expression scores per case plus their Europeanisation status.

	Greece	Ireland	Portugal	Spain	Cyprus
Compliance rate	3	4,5	2,3	3,5	4
National coordination structure	4	4,5	3,3	5	5
Overcompliance	2	4,7	1,9	5	4,3
Spillover	3,3	3	2	4	4
Power shifts	4	4,5	4	4	5
Europeanisation	Absorption	Upgrading	Upgrading	Transformation	Transformation

Overall we see higher scores for power shifts, lower scores for spillover and high discrepancy in scores with overcompliance. Higher scores for powers shifts is expected, as indirectly it is expected that European institutions aim to have more influence in the troubled nation's fiscal policy making situation. Agreeing to an Economic Adjustment Programme and at least attempting to implement some of the agreements already means you will have some further European integration. On the flipside, spillover turned out one of the least showing indicators. Why this was the case is up for debate, it could be due to institutional rationalism and actor's self-interests to not further delegate tasks. Either way the results for spillover are the lowest overall. We see a large discrepancy in overcompliance results with high scores for the better recovering nations like Ireland and Cyprus and lower scores for less well-off nations like Greece and Portugal. This might be due to the nature of crises and the economic situation of the specific countries. General technical compliance rate and adaptation of the national coordination system seem to be mostly in line with the Europeanisation status.

We see similarity in results with the countries that had a large problem with competitiveness (Portugal, Greece) as they had far more trouble in rebounding post-crisis and in implementing reforms. On the other hand the countries mostly troubled with a financial sector due to liabilities, private property bubble, worse performing loans were more easily repaired. The flipside with a traditional secondary economies and physical production (or even with a primary economy) is that it can be hard to change and to make more competitive. These reflect themselves in lowers scores for Greece and Portugal.

10.3. COMPARISON OF THE PREDICTIONS

Our three predictions however relate to intervening variables (hard law, soft law, power shifts) and need to be compared vis-à-vis integration level. That way we can test the predictions as we theorized Europeanisation level to be equally high to level of compliance. As previously mentioned compliance rate and national coordination system adaptation are averaged for prediction one’s score and overcompliance and spillover are averaged for prediction two’s score. Thus the outcome of the predictions (P=prediction)are seen below in table 10.2.

Table 10.2. Results of predictions per prediction per country alongside their Europeanisation status.

	Greece	Ireland	Portugal	Spain	Cyprus
Prediction 1	True	True	Mostly true	True	True
Prediction 2	True	True	False	True	Mostly true
Prediction 3	Mostly true	True	True	Mostly true	True
Europeanisation Status	Absorption	Upgrading	Upgrading	Transformation	Transformation

For Ireland we saw that their main economic problems were their credit expansion, property bubble collapse and their asset-liability mismatch. Ireland faced most, if not all, of its problems in the financial/banking sector. We expected high scores for Ireland across the board with its Upgrading Europeanisation status. However the scores were even so high that one could almost plead that a Transformation Europeanisation status would be more suitable to their situation looking at their scores. However as we saw in chapter 6.4. that was still not the case. All predictions turned out to be true for the case of Ireland however. A case that was very similar in its economic nature was Spain – where a housing bubble collapsed, a bloated public sector ramped up public deficit and where lack of bank oversight made the financial sector collapse. Many of the reforms presented to Spain were hard in terms of frontloading and it was a difficult task to comply with all demands, however Spanish dedication remained high. Compliance being the lowest score reflects this, juxta positioned versus their high overcompliance. Only their score of power shifts was lower than expected, making it a mostly true prediction. The Spanish level of Europeanisation was Transformation however and the scores were mostly as high as was expected. This was the case for Cyprus as well who was also found to be having Europeanisation: Transformation. Cyprus too had most of its problems nested in its financial systems with a huge increase in bad debt ratio, less performing loans and shrink in tourism to top it off. We largely

see a strong correlation between our proposed relations and this results in a p1:true, p2: mostly true, p3:true result. The two remaining countries had more complex problems, true they had financial issues as well but Portugal for example had a large trade deficit alongside (or caused by) its lack of competitiveness. Portugal thus had reforms focused on financial and fiscal stability but also on increasing their competitive position on the international market. While they did transfer the expected amount of power, compliance with hard and soft law was not as we expected. Scores were lower for both compliance and overcompliance, which might be due to the tough national political climate combined with a strained and over encumbered bureaucratic apparatus. Portugal turned out to be the least fitting case with a P1:mostly true, P2: False, P3: True result. The situation for the final case, Greece, was better fitting than Portugal. Greece had a myriad of problems ranging from corruption to tax evasion to wasteful public spending to lack of competitiveness. Likewise the financial sector was alongside the public sector in proverbial ruins. Looking at the 1st and 2nd Economic Adjustment Programme for Greece we saw that its Europeanisation status was 'absorption' however Greece was the case where the theories and predictions seemed to diverge most. Outright incorrect was prediction three, which had scores which were higher than expected. P1 and P2 however were as expected and thus fitting within the theory. From the results we can conclude that P1 had the strongest evidence with almost all cases fitting the expected values, P3 had two situations with mostly true but not cases which goes against theoretical expectations. P2 did do that however, With a 'false situation for Portugal'. This will be further discussed in chapter 11.

10.4. CONCLUSION: TESTING THE HYPOTHESIS

To conclude on our predictions, we will reiterate what they stated and answer them.

P1: The more there is compliance with hard law from ESM provisions, the more European integration in the policymaking-area.

Within this hard law we defined two main modes of expression: (technical) compliance rate and adaptation of the national coordination structure (of new policy). We postulated that the higher these two were, the higher the integration status of the specific country would be. So far we found this to be the case in all findings with four true (very high overlap) results and two slightly true (relatively high overlap) results. Thus we can conclude that we found a positive correlation between implementation and expansion of procedural and institutional provisions (hard law) and European integration.

P2: The more there is compliance with soft law from ESM, the more European integration in the policymaking-area.

Likewise with soft law we see two main indicators/modes of expression that are part of this process overcompliance and spillover, ought to have a positive correlation with European integration. However from the cases that did not always seem to be true with one case fulfilling the criteria for false, one for slightly true and three for being true. Out of all predictions soft law was the one that seems to be the least stable/confirmed one and will be further elaborated on in chapter 11.

P3: As power flows to supranational actors through new procedures and institutions, European integration of the policy-making field will occur.

When policymaking, supervision, cooperation, approval, etc. competences transfer to the supranational level and as power and influence grow at the supranational level, Europeanisation of policy will occur. Derived from neo-functionalism, supranational actors would thus increase integration as much as possible. This mostly coincides with the results we found, the higher the expression (and thus more competences are transferred) the more Europeanised policymaking has become. In three cases we found the prediction to be correct with three trues and two slightly trues meaning there is a strong correlation between European integration and power shifts. While we found general theoretic overlap, there are still side-notes that need discussing to these results. As all three predictions have been tested we can form conclusions and place the findings in a framework of reflection and suggest further research.

11. CONCLUSION

11.1 INTRODUCTION

The way to build upon the predictions and its answers is to conclude the research by looking at the questions posed in the central research question and the sub questions. In this chapter we will answer the sub questions first in 11.2., which in turn indirectly answer the central research question. Then we will answer the central research question with brief contextualisation in 11.3. However these results had some remarks that need further explanation and that will be further discussed in 11.4. Based on these remarks further research suggestions will be made in 11.5. And the research will be concluded by personal introspection in chapter 11.6.

11.2. ANSWERING THE SUB QUESTIONS

From chapter 1.2. we outlined five main sub questions which created the main research question. Each questions aims to tackle a different aspect of the research: the intervening variable(s), the independent variable, the dependent variable and the empirical research subject. We will answer these questions separately before answering the central research question.

1. What exactly are the ESM and its predecessors ?

As seen in chapter 4, the ESM is the European Stability Mechanism which is an institution that aims to provide financial stability to European Union Member states who are part of the European Monetary Union. Through the two former financial institutions, EFSM and EFSF, they were merged into a permanent institution that aims to safeguard financial stability in the EMU zone by creating a permanent financial reserve through which financial aid can be distributed under Economic Adjustment Programmes. The EFSF (European Financial Stability Facility) and the EFSM (European) were predecessors that were similar in nature but were operationally differently. While they both aimed to work as lending mechanisms to financially troubled countries the EFSM worked with and leveraged money from all EU members and the EFSF worked with and leveraged from EMU members. The ESM is the synthesis of these two institutions plus a few new competences, with this they gained a permanent status in the Treaty of the Functioning of the European Union. Now permanently staffed the ESM is tasked with monitoring and distributing aid to countries which have achieved agreement with the European actors, bilateral lenders and international actors like the IMF.

2. What is compliance with treaties and agreements in theory?

As we aim to describe the process of translation of institutions into living integration we need to analyse the theoretical relations through which this discrepancy originates. From Linsenmann et al (2007) we found that compliance is one of three mechanisms through which an agreement/institution (legal constitution) gets translated into actual European integration (living constitution). We look at this relation which is called compliance, the adherence to and implementation of the agreements made at the European decision making level. This was described in chapter 2.

3. How does this theoretical compliance express itself?

Compliance has three elements (intervening variables and they were distilled into five indicators: rate of technical compliance with the treaties and agreements, the extent of adaptation of the national policy making structure to the new expectations, adherence to the spirit of the law and intention to overcomply with the new institutions and agreements, horizontal and vertical spillover as a proverbial administrative black hole that gets more actors involved in decision making and problem solving and finally power transfer/centralisation of competences as relative or absolute power is transferred or created.

4. How can actual European integration and policy coordination be defined and measured?

From Linsenmann et al (2007) we saw the definition of European Integration come down to what they call a 'living constitution'. As we discussed prior the independent variable is the ESM with its Economic Adjustment Programmes as actual concrete results of the agreements made between aid-seeker and aid-distributors. The European integration aspect is the rate at which (fiscal) policy-making is integrated to a higher level of decision-making. In Meyer & Umbach (2007) Europeanisation of governance is discussed and they describe five stages of integration/Europeanisation of national political life: retrenchment is the level at which national actors try to reduce Europeanisation and try to renationalise an aspect of policy making. Inertia is lack of changes in either direction with the status quo prevailing. Absorption is the superficial adaptation/lip service approach to Europeanisation with only slight integration in aspects without any significant costs. Upgrading is a moderate form of integration with some significant costs being made and some institutional structures changing but the narrative has not altered yet. And finally the highest form of Europeanisation is transformation where not only the entire policy field is Europeanised and policy is made at a European level but where also the narrative and the goals for policy-making are fundamentally altered. These stages of integration are operationalised and further described in chapter 3.

5. Does compliance with the ESM and its predecessors lead to actual European integration?

From the theory deduced in chapter 2 and laid out in chapter 2.5. and 2.6. a positive relation was postulated between compliance and the rate of actual European integration. As mentioned in the previous sub question this actual European integration was dubbed the living constitution and expressed itself through rate of Europeanisation as per Meyer & Umbach's (2007) theory. For all three forms of compliance we posited a positive relationship. From the analysis of each case and their overall comparison found in chapter 10 we found this general positive relationship between compliance and integration to be present and most true for Hard Law and Power Differentiation (prediction 1 and 3). For prediction two, Soft Law, we found a less fitting relationship as that relation was sometimes proven false. This will be further elaborated upon in chapter 11.3.

11.2. ANSWERING THE CENTRAL RESEARCH QUESTION

The broad outline of the research was to determine the relation between compliance with provisions/agreements and the resulting amount of integration. From theory was deduced that there was a positive relation between compliance with treaties and agreements and European integration. Thus the central research question ("*Has compliance with the ESM and its*

predecessors lead to actual European integration and policy coordination for its subject countries?") can be answered thanks to the predictions and sub questions. We saw indeed a positive correlation between compliance with the ESM and its predecessors and actually European integration of policy coordination for countries which partook in its programmes and thus can answer the question with a resounding **yes**. However for further nuance on the results and possible exceptions please see the following paragraph.

11.3. DISCUSSION OF THE RESULTS

So far we have generally found that there indeed was a correlation between compliance and use of the treaties and European integration/Europeanisation of (fiscal) policy-making the stronger Europeanisation of policy-making seemed to be, the higher the various expressions for compliance and use of treaties are. Where Ireland seemed to be going from transformation but eventually ended up with upgrading we generally see high expression scores across the board. In Ireland we found that it was largely correct in that we found plenty of connection between (over) compliance and the rate at which it got Europeanised. Greece was a very living case where we saw the both end of the spectrums be correct, Europeanisation was moderate-high during the First Programme and this was reflected in the scores, likewise for the 2nd programme we saw lower expressions of compliance and thus followed a lower rate of Europeanisation. On the contrary we find concrete evidence that expansion and use of soft law (prediction 2, overcompliance and spillover) did not completely correlate with Portuguese and Greek results. This soft law aspect is highly informal and requires more dedicated research to be understood as written and technical research focused on compliance such as this one cannot capture that properly, research through interviews with experts, lobbyists and other insiders might prove to be more fruitful to discover the true nature of the soft law compliance. Prediction 1 and 3 relating to technical compliance and power changes did however end up being true for Portugal As these are mid to high tier scores for a level of upgrading – which is the 2nd highest form of Europeanisation and fits the predictions. For Spain we see a dedicated government with decently high scores of compliance across the board, for prediction we see slightly lower scores than expected but still not out of the ordinary as it's within the margin of error (1 point). And for the final case, Cyprus, is another clear case where the predictions became true as the expressions of compliance correlate with the rate of Europeanisation. We see the highest form of Europeanisation, transformation, occurring in Cyprus as policymaking has completely transformed in the wake of their sovereign debt crisis. For all of the cases we see that the predictions hold true (for most part) and thus we can conclude that there is indeed a positive causal relation between: treaty -> compliance and use of treaties -> Europeanisation.

11.4. POLICY RECOMMENDATIONS

While indicators and targets may receive criticism for being similar to a 'New Public Management' sort of governing, they seemed to be the ones most pushing actual European integration. To structure this in a constructive practical way we need to look at a way to reinforce processes that seemed to have worked. To strengthen compliance rate one could incentivize target achievement (even further). These incentives already existed with Greece's Third Economic Adjustment programme where loans were distributed on a monthly basis. This looks to be one of the most effective methods of insuring actual European integration. For

national coordination adaptation we noticed a positive relation to integration, however to influence this national coordination system is hard. Anticipation at the national level might be extra complicated due to distance of the supranational actors from the actual national procedures, commissions, etc. This could further be solved by aid through expertise – like seen with the Task Force for Greece or the Spanish situation where a new ECB organ was created for further supervision but also interference in case of crisis. A specific body of expertise that has influence, be it formal or informal, on relevant decision making procedures of fiscal policy making will lead to increased actual European integration.

Getting actors to give up some of their autonomous decision making procedures or nationally appointed checks and balanced might be hard to swallow – and this faced the most opposition domestically. Where governments had little political capital for reforms, as in the case of Portugal, we see that communication and conciliatory visits had a positive influence on quelling unrest. Thus indirectly granting more political capital. More representation and transparency of involvement of procedures might be beneficial. Having symbolic meetings, monthly for example, in open transparency might calm the unease a population might have with ‘sneaking Europeanisation’. A monthly press briefing to review the accomplishments and to announce whether or not the financial loans will be disbursed in response to targets met or not will reduce opposition.

11.5. SUGGESTIONS FOR FURTHER RESEARCH

However we need not forget that the theoretical relation is that of one between the independent variable (the treaties/agreements/etc.) and the way Europeanisation occurred, however there were three intervening variables and we examined one with this research. To further add power to this theoretical framework and relation. Especially more focus on soft law and informal implementation seems to be something that really needs further examination as not all sentiments can be captured and in politics not all things said are true. We outlined the difference in working between hard and soft coordination and it seems that the aspects of soft coordination seem to be less efficient in progressing integration. Perhaps literature studies that aim to analyse the discrepancy between soft- and hard-coordination and the impact they have on integration even further could be useful.

11.6. REFLECTION

The relation between legal and living constitution is complex and we see that prediction one was the most fitting followed by prediction three. But prediction two seems to be the weakest. This could be due to lack of theoretical validity but also due to operational problems. Which brings us to reflection on the research itself. While spillover is a concept that can somewhat clearly defined and measured as spillover result in practical results like new council or communication channels, overcompliance is more of an ambiguous concept that is hard to quantify. Likewise sometimes there were issues finding source material for certain countries as ‘informal’ or inter-actor communications were not published or were not very insightful. Regardless, this might be a problem with the methodology in general and this weakness could’ve been improved by triangulating the research method with another one. A possibility would be interviewing the pivotal actors in the negotiation process like the civil servants addressing the issues given by the political primacy. This would also increase reliability as that same person would be

approachable/the interview could have recorded and typed out in a transcript so that researchers in the future may see the exact questions asked, context and answers. This would also further develop the research in the direction of a true qualitative research as now it has employed mostly document analysis but also uses nominal grading which would be more in line with quantitative research. If the research would've been deepened with interviews for example it might have also been more beneficial to focus on one element of compliance, overcompliance itself for example. This way more material could be garnered for a more internally valid observation and conclusion. For criticism on theory the theoretical framework could've had a few improvements with regards to choosing a more defined framework. While the general relations were laid out it, there was still a lot of room for further specification. Linsenmann et al (2007) mentioned several substantive arguments for explaining the theoretical relations but it was not the end all be all as it was not the only theoretic drivers for its research. This had to be compensated with other literature. In the future it might've been better to find exactly fitting theory that would have left less room for interpretation.

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ANNEX 1: LITERATURE REVIEW

While an extensive review of the literature of European integration is necessary for this research, most of the subjects are not directly related to the subjects of this research. In this annex we will further outline the history of European integration. The major schools of thought of European integration which are neo-functionalism, liberal governmentalism and new institutionalism. Since new institutionalism is the most relevant of these three schools of thought we will further outline this school with its elements afterwards. Then we will also outline the theoretical differences between soft- and hard coordination and its relation to European integration.

HISTORY OF INTEGRATION

The purpose of this research is to determine to what extent the ESM subject countries have had their fiscal policy sovereignty altered. The fact that we have the bailout packages and financial aid come with certain criteria and conditions means that there will have to be made some changes to their already existing system. But in how far do these changes cause a legislative drift which lead to international integration? Dabrowski (2010) talks about the necessity of further European integration for compensating certain deficiencies of weaker EMU member states. It is argued that the European Monetary Union did not have all the required instruments in its arsenal to battle the aftermath of the European Debt Crisis. Due to this lack of possibility of involvement another financial actor, the IMF got involved with the financial situation of a few troubled EMU members. But that doesn't solve the issue as we further find out that none of these actors have the decisive formal power to enact any of these changes, making the possibility of creating a joint-stimulus package for countries a very intensive task. One could argue that the transfer of some of these competencies to the supranational level could lead to a far more comprehensive and streamlined emergency process.

Furthermore it is speculated in the literature of Von Hagen (1991) that certain fiscal changes are to be expected of member states if they want to be a functional member of the European Monetary Union. The current state of affairs with its balance of powers proves to be dysfunctional and leads to mismanagement and the necessity of bailing out underperforming governments. Von Hagen (1991) therefore argues for imposing a certain set of fiscal restraints to hamper the influence of national governments on their own budgetary procedure thus giving the European Union the possibility the standards to which the states are to adhere. Would these standards be set in place, fiscal regulation of these different member states suddenly would be far more manageable and less politically dependent. Evidence found for its positive effect in the way the government of the United States of America fiscally restrains its separate state governments.

Indeed this notion of fiscal restraint is further researched by Lans et al (1991) who look at the pros and cons of limiting the freedom of national budgetary policies. Without these the EMU intrinsically contains a few risks. For example, if the budgetary discipline of a specific EMU member is lacking but there is no way to intervene in that situation a certain moral hazard is created. Countries namely will be less fiscally responsible in an attempt to reach expansionist growth, however the price of this unrestrained spending falls on the collective plate and causes problems for fiscally responsible members. Not only that, it encourages further reckless spending. After all you need to keep up with your competitors or else you will be overtaken,

which creates a race to the bottom with regards to fiscal policy. Hence to combat this it is suggested that these externalities get curbed by having the EMU states grant the ECB certain pre-commitments and a very loose framework to which they are to adhere. Lans et al (1991) also mention the possibility of a no bail-out clause on certain conditions as a way to combat these negative externalities. The goal here being that the knowledge of no safety net will cause EMU member states to spend more responsibly and thus eliminating the moral hazard that the shared currency carries.

However there is also a downside to all these restrictions. As the externalities get managed better by super ceding these competences to a higher level, the flexibility gets massively reduced. This leads to a far slower response rate and thus governments are less able to react to financial shocks, crises or other unexpected turn of events. An integrated economic budgetary procedure as on the level of the EMU works from a certain multiannual framework, disallowing drastic changes where necessary. Local knowledge also gets lost on integrating this on a higher level, not all economies react the same to the same issues so it is only the question if a uniform monetary policy is something you should desire. Furthermore this can cause an increase of distrust in national policy makers towards the supranational level, fostering even further anti-integration sentiments. The possibility of supranational governments to override national governments on such key issues can lead to a lot of political resistance, especially considering that the national government can receive the blame of the public even though the European actors are truly in charge.

While we certainly see benefits to the integration of national budgets to the supranational scale, there are more than often a lot of qualms with it. As witnessed lately by the talks of the Greek foreign minister Yanis Varoufakis travelling across Europe pleading for better conditions, the government is not able to fulfil its promises to its people. The Greek elections have shown a resurgence of Euro scepticism and the attitude of being fed up with the austerity and European financial and fiscal regulations. However due to the institutionalist approach and the agreements made prior to the election of this government, the current government is caught in a financial trap so to speak. The will of the people is unable to be represented now and this leads to a severe democratic deficit. Hare (2012) writes about this as she mentions that the public legitimacy of governments gets severely undermined by these bail outs. While the bail outs are intended to help the financially troubled countries, one must not lose overview of the greater picture. It is necessary for the other EMU member states to keep these states propped up and financially above water. The hit the currency would take when a member state defaults, would shock the other states nearly as much as the victim itself. Hence there are multiple interests at stake, even further increasing the influence of foreign sources on the national budgetary procedure. Indeed one might question the actual sovereignty of these member states now that they have very little influence on their own budget and financial program. To address this issue Hare (2012) argues that while unpopular in the case of most troubled financial states, more European integration does tend to be the answer to this issue. A possible solution to this problem might be a referendum to gauge whether or not the citizens are willing to compromise their autonomy for a better treatment.

While we can see the benefits of the vices of the possible further financial integration of EMU member states, the perception so far has been from a member states point of view. Such a view is an intergovernmentalist approach, the integration happening as a desire of member states. However as public choice argues, the possibility of the proliferation of integration is the result of

its own interests. The possibility of the continued integration might be a result of neo-functionalism. Neo-functionalism is the assumption that public actors are self-serving and are trying to maximise their influence and importance by further transferring capabilities towards their own sphere. The premise of neo-functionalism are as Hammonds (2000) mentions: the emphasis of actors on process in which they are themselves central rather than the goal of obtaining the best results possible. Neo-functionalism and intergovernmentalism are two of the few main theories of European integration.

THE THREE SCHOOLS OF THOUGHT

One of the first mentions and descriptions of the process of neo-functionalism appeared in the 1960s with Ernst Haas writing his book 'The Uniting of Europe' (1968). Within The Uniting of Europe (1968) Haas predominantly talks about nations as 'political communities' and the supposed unified interest citizens have in doing what is best for their nation. He labels this political community's interesting seeking as 'nationalism'. This ideology of nationalism varies on a country to country basis in (western) Europe and thus while largely similar some clashes still exist. It is these clashes that dominate the political arena of the new European community. Haas (1968) makes the distinction between economic- and political integration, as economic integration seems to precede political integration in his opinion (p. 13). Haas was of opinion that integration happens mostly based on interests rather than values like altruism or idealism. However the mechanism through which integration occurs according to neo-functionalists is primarily through spillover (on economic grounds as defined in Haas, 1968, p. 291) as we saw the primary interests play an incredible role in facilitating this spillover, The ECSC (European Coal and Steel Community) increased spillover through the increase of influence of industrial workers in the policy making process as they pushed for the GMC (General Common Market). Spillover exists in two forms: functional and political. Functional spillover. The definition of spillover according to Lindberg is (1963, p. 10): "a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more action and so forth". This form of spillover of actor interest will make more policy spillover to the supranational side of the institutional setting and is a form of intended spillover and known as political spillover. On the other hand there is unintended spillover, as collective problems arise due to antecedent conditions (think of an economic crisis hitting all vulnerable European banks) leads to desire to resolve a (policy) problem collectively which usually furthers policy making between multiple peers but also between various policy areas.

This is in contrast to liberal intergovernmentalism where is mentioned that not new agencies or supranational actors are main drivers behind integration but are merely at the mercy of the interest of the national governments- supranational agencies have power because it suits the member states most to have that arrangement. This does not necessarily mean that every single member state participating is a direct beneficiary according to Moravscik (1991, p. 25) as individual agreements might be detrimental - the overall interaction is a benefit as smaller nations get 'bought out' by larger nations for example. Liberal intergovernmentalism states that the primary force behind integration is overlapping (economic) national interest between nations, where nations want to cooperate to create mutual gains new arrangements will be created to facilitate cooperation and decision-making thus creating supranational or intergovernmental bodies.

Both of these theories ignore an important factor however - the institutions themselves and this is mostly targeted by new institutionalism. New institutionalism postulates that the existence, treatment and use of the institutions is an important factor in how integration comes to be. Within new institutionalism there are three schools of thought that describe how actors deal with the institutions and how institutions come to be - rational choice institutionalism, sociological institutionalism and historical institutionalism. Rational choice institutionalism says that actors behave extremely rational and use institutions to further their interests through gamesmanship and opportunism. This is opposed to sociological institutionalism which rather claims that actors tend to act on behalf of decency, their expected roles and to do as what they perceive is right. Historical institutionalism both overlaps with these but takes more of a causal process-tracing approach and says that conditionality of the prior situation is most important in further creating, altering or dissolving institutions. Historical institutionalism also introduces the concept of critical junctures which can be described as opportune moments to significantly alter existing institutions, create new institutions or disband existing ones. These institutional schools of thought best describe Linsenmann et al (2007)'s theory of how actual integration comes to be due to institutional settings. As we look at the ESM as an institution and the effect the ESM has on European integration, we can see that new institutionalism is one of the most overlapping theoretical explanations. For a comprehensive and detailed description of neo-institutionalism and its three main schools of thought please see annex 1 literature review.

SCHOOLS OF NEO-INSTITUTIONALISM

We have mentioned it before but one of the biggest theories in explaining European integration is the theory of neo-institutionalism. Neo-institutionalism aims to explain the changes to European integration from the perspective and influence of institutions. There are three main competing schools of institutionalism: rational choice institutionalism, sociological institutionalism and historical institutionalism.

RATIONAL CHOICE INSTITUTIONALISM

As the name implies it states that political entities try to maximise their gains by adapting their behaviour to the institutions and rules of the decision making framework. Here one should look for the rate of compliance with substantive and procedural rules. There are generally four distinctive features with rational choice according to Hall et al (1996, p. 942).

1. First of all rational choice theorists believe in certain behavioural assumptions guiding actors' behaviour, a fixed set of preferences and tastes that lead to strategic calculation within discourse and decision making. Actors are to be assumed to be cold and calculated and work according in an extensive strategically planned manner as a means to acquire as much as much as they can according to their means. Within these needs there is a matter of transitive logic where priorities are assigned to goals or ends. These assumptions are very similar to the ones used in game theory.

Strategic calculation is the behaviour of cold emotionless rationality that is based on the maximal goal attainment of the specific actor. Here the actor tries to assess the situation in the arena and deliberately tries to come up with a plan to maximize its attainments within this arena. The strategic depth here comes from the fact that the actor makes assumptions on what

they believe other actors will behave like, thanks to these assumptions the actor's own behaviour gets adjusted to best make use of the setting of the environment.

This is also a fundamental premise of game theory in which strategic calculation gets taken to its maximal extent. Within game theory the premise is that actors will behave in a calculated, intelligent and informed way with intention to maximize their own interests. This is usually done by striving for maximal individual interests perhaps even at the expense of the collective progress .

2. Which brings us to the second point, politics and decision making are according to rational choice theorists based on the idea that actors see this discourse and interaction as a form of collective action dilemmas, again similar to the ones in game theory. Behaviour of actors is very cold and individually focused, aimed only on getting as many (relative) gains as possible. This distinction makes it difficult for issues to get resolved in a pareto optimal way due to the unlikelihood of the collective action being the best possible outcome for all actors involved. These issues are colloquially known as the prisoners dilemma or the tragedy of the commons. Hence it is likely that actors will prefer relative gains over absolute gains (will be discussed later).

The pareto optimum is a concept in which collective action tries to attain improvement for at least one of its members, without any of its members suffering. It is a method of resource allocation that is regarded as general beneficial in collective actions as there are no direct 'losers' in collective actions. However since actors are working according to strategic calculation in collective action dilemmas there will also be the concept of relative gains where if your peer stands to lose, you self-stand to win. In this particular case it might even be detrimental for yourself if the others are to improve while you see no improvement whatsoever. This leads to a convoluted web of alliances, agreements and politics within a political arena in which actors are trying to persuade the others to join their cause or to align their interests with themselves.

3. According to this line of reasoning we find a third distinct feature for rational choice institutionalism. These needs for optimal individual gains lead to very calculated behaviour and would create a type of interaction that is based on prior calculations and meta-planning. This means that actors not only try to come up with the best possible solution and method to attain most of their goals, they also assume and process the possible strategies and positions of other involved actors as a way of making clear of what the political arena looks like. Based on their pre-conceived notions of what behaviour will unfold, actors will try to either ally or strengthen similar actors while downplaying and obscuring the ones that are unfavourable to their position. Which brings us to the fourth point and final distinctive assumption.

Indeed it is only not a goal or luxury preference to assume interest attainment, within rational choice theory the need for optimal gain is the crux of the issue. Due to belief that all decision making is based purely on interest and everyone else trying to pursue their goals it is completely necessary for the actor to do so in this environment too. For actors that do not adhere to this calculated and planned method of action will find itself quickly eliminated as form of selection.

4. The last outstanding principle that guides actors according to rational choice institutionalism is the role of institutions within politics and decision making. Institutions exist because they serve actors with power or marginalize the ones that don't have power. The

desired values or outcomes as dictated as the most powerful ones in this landscape will result in certain institutions that not only will benefit them directly but will also further cement their position making rules based on the concept of 'might makes right'. An organisation thus is not based on ethics or principles but rather on maximizing bargaining power or minimizing transaction costs for the ones that have the power.

The ever present aspect of power in social settings and arenas leads to overlap with other theoretical schools of disciplines. Within international relations for example the predominant and first school of thought, realism, focused on the power relations between countries and how the international political arena revolves around those who can exert or access it. Indeed the phrase might makes right has been the topic of discussion from philosophy to public administration ever since the famous quote by Thucydides:

"Right, as the world goes, is only in question between equals in power, while the strong do what they can and the weak suffer what they must."

Indeed, this aspect relates to neo-institutionalism in the regards that rational choice theorists include it in their view of institutions. Institutions are merely the manifestations of rules created by the powerful to maintain or even enhance their current position of power. They merely serve the goal of the values that the creators tended to achieve. Here it is clearly visible that rational choice theorists adhere to a pragmatic and meta-strategic idea of institutions. However another school of thought, sociological institutionalism, completely goes against this entire train of thought.

SOCIOLOGICAL INSTITUTIONALISM

Contrary to the calculated and strategic behaviour of rational choice institutionalism we have sociological institutionalism, this theory widely integrates the normative social and cultural forces in its world view and pleads for a more norm and value driven vision of actors behaviour. Within this theory one looks at behaviour of actors through the concept of **bounded rationality**. Actors behave according to certain social environmentally-induced rules and these can have an influence on actor preferences and procedural outcomes. There are three characteristics of this type of institutionalism that are unique and constituent premises according Hall et al (1996, p. 946).

Bounded rationality is an explanation of the method of reasoning of individuals in decision making procedures. Simon (2000) describes it as the concept that of choice making by individuals is bounded by their own (lack of) knowledge of the world, their insecurities and their general inner environment with there being no appeal to objectivity or external world values that are applied to speak off.

1. Firstly, the role of institutions is perceived and defined completely different than within ideological train of thought of rational choice institutionalism. Institutions are not manifested desires and strategical procedural rules defined by the powerful, but rather are all encompassing frames of meaning. Not only rules and procedures are institutions but symbols, moral templates, cognitive scripts, etc. are so too. effectively meaning that a culture and its institutions are intertwined and overlapping. This leads to two important implications namely: this definition is even wider than even commonly used one by political scientists who imply that culture and institutions influence each other but are still separate spheres. Secondly: within this

approach culture and institutions are nearly synonymous as culture is seen as a form of institution.

This blending is caused by the origin of relativity, which comes from the frames of meaning of the individuals according to sociological institutionalists. The argument here is that actors cannot behave 'objectively' rational as there is no way for individuals to access it or understand it (epistemological debate of existence of objectivity aside), actors however reason from their own norms and values and interpret and make sense of the world according to the ingrained mental rules and systems.

2. Building on this first premise, the second assumption is that institutions and norms aren't an one way direction where norms dictate the institutions, but rather a two-way process. This new normative dimension seems to be a source of influence in itself where actors become socialized in an organisation or social landscape according to its already existing norms. Such an assumption of causality works under the implication that the institutions that are present in an institution are not taken at face value by actors but are rather used as a cognitive script and also cause the actors to associate with the values behind it resulting in behaviour that is akin to the logic of appropriateness. Thus institutions not only directly influence the specific behaviour they refer to but also cause a normative change down the line which causes the actor to absorb itself in the underlying thought of the institution and behave according to these norms and values even in unregulated or unspecified situations. This leads to the idea that the behaviour of individuals is not based on ratio or goal-orientation but rather on their own socially constructed values which are trying to express their identity in socially appropriate ways.

The logic of appropriateness a concept that tries to entail how human behaviour is based on 'should bes', it is the counterpart to the logic of consequence. A great definition of the logic of appropriateness is given by Olsen (2004) who defines it as a perspective on the interpretation of human behaviour; it involves the following of rules or procedures who are deemed to be natural, rightful, moral, expected and legitimate in essence thus creating the leading guidelines for what behaviour should be like.

3. Finally the third specific aspect of sociological institutionalism is in complete opposition to the final point of rational choice institutionalism which dictates the purpose of institutions. While rational choice institutionalism dictates that institutions merely serve as a tool to create efficient and advantageous decision making procedures or power structures, social institutionalists perceive institutions to be used as forms of social and public legitimacy. In organisations this might mean that institutions will be formed around what values and beliefs are considered desired in the larger cultural sense. This means that institutions take a focus on social appropriateness rather than logic of instrumentality.

HISTORICAL INSTITUTIONALISM

This historical driven focus looks at the path dependency of actors. Path dependency here being the previously taken decisions, enacted institutions, adhered informal rules, etc. The key in finding relations with this vision is to look for precedent-setting events. We can see four distinct features that belong to historical institutionalism as described in Hall et al (1996, p. 937).

1. First of all, historical institutionalism takes a different approach to institutions and human behaviour. The idea behind historical institutionalism is immediately identifiable by the fact that it does not go for either rationality or social logic but take into account both, in this sense they have an eclectic approach to institutions. They believe that institutions influence humans to be both be rational and used to their advantage but also that they have the possibility to influence the morals and character of the actor in that specific context. But it is not only restricted to a specific context like with rational choice institutionalism, indeed historical institutionalists believe that all the rules of the game collectively do not form a coherent picture. Thus they feel it is crucial to take a comprehensive look at the entire context of the situation before one is able to draw conclusions.

This eclectic or dualistic approach to institutions broadly shows the general thought that hides behind historical institutionalism. The belief here being that it is not as simple in decision making to say it either happened one way or the other, they believe both rational choice institutionalism and sociological institutionalism hold merit to a certain extent. They however believe that neither is the perfect answer in any case and thus try to include aspects of both in their analysis.

2. Secondly historical institutionalists do not only focus on symmetrical power the way rational institutionalists do. They go further and assume that power is inherently unevenly distributed across various social groups. That is to say, within rational choice institutionalism actors are believed to influence institutions to such an extent that their power will be proportionally represented in how useful the institutions is to them. Historical institutionalists however, believe that institutions are not completely the result of only manifestations of those in power. The belief is here that the status quo during the decision making can decide which groups or actors in a certain environment get a certain advantage for that particular case, even though they are not powerful. An example of this would be representatives of working class citizens dictating policy creation on a certain issue while they have very little institutional power.

3. Furthermore a unique feature of historical institutionalism is their focus on path dependency. This further elaborates in the belief that context is crucial and thus one cannot easily replicate the causal relations that are postulated in social situations. Prior decisions that proved to be crucial cannot simply be reversed and dictate the direction of institutions to come. This idea is best known as a critical juncture. At a given moment in time where a new drastic path is undertaken a decision is taken which becomes in itself dictating for further policy action. The further existence of this policy direction exists because reversing and changing it would far more effort than simply continuing with it, creating a fork in the road if you will. This narrowing of the path leads to sub optimal decisions or institutions becoming fully ingrained in the

institutional framework with very little room to be changed. A great example of this issue is the story behind the issue of QWERTY order.

Path dependency indeed is a unique concept that further needs to be elaborated on. Like aforementioned, a prior decision no matter how trivial can dictate the further flow of institution creation or policy making. Pierson & Skopcol (2002) briefly describe it as: self-reinforcing process in which prior decisions (taken at critical juncture) become continuously further strengthened. In considering whether or not a policy, decision or institution is worth revising or recreating the actors have to consider both the transaction costs and potential power changes involved in such a change. Due to these considerations it is more than often more beneficial for actors to leave the situation in the status quo rather than to try to negotiate for changes. This, perhaps arbitrarily, created status quo than further gets cemented into existence as down the road it only becomes more troublesome and costly to change. Because of this reasoning historical institutionalists believe a large part in forming institutions is more determined thanks to historical moments in time (or critical junctures) than some other reasoning. A great example relevant to this case, is the pressure after the sovereign debt crisis that forced a lot of rapid financial reforms for PIIGS countries for example. These newly created institutions may not be optimal but could possibly dictate the flow for years to come.

Critical juncture refers to a phenomenon that there is a dictating moment in time which makes way for a new formative policy or institutional direction which will due to its creation and use at a crucial and chaotic time period only be further built upon in the future. Capoccia & Kelemen (2007) describe critical junctures are a narrow situation in time at which a juncture is formed between prior decisions and a new set direction that only further gets entrenched over time. Thanks to certain new discoveries, technological advancements, ideological shifts or policy changes a new opportunity for a precedent setting even arises in which a new direction into usually unknown territory is taken.

4. Thanks to this wide approach to institutions, historical institutionalists finally dictate that institutions are not the only variables involved in human behaviour within politics and decision, they stress a plurality of variables. Importance is also put on socio-economic developments and spread of ideas as a cause for certain behaviour. Institutions do not completely dictate how actors behave but they are also motivated by creed or ideology. Furthermore social movement or the current of the moment (due to recent developments in the news for example) can cause changes in behaviour which will translate into different positions at the negotiation table during the policy making process.

The plurality of variables is unique in the sense that it is a theoretical lens that tries to be widening instead of narrowing. Instead of exclusiveness there is inclusiveness. In a search to come to a as exact of a theoretical explanation the norm is to include more variables instead of exclude. Here historical institutionalism shines as it allows great flexibility within its research to try to make sense of the process that caused the institution to become the way it presently is.

SOFT- AND HARD-COORDINATION

The European Union has two main ways in which European law and practice is structured, soft law and hard law. Trubek et al (2005) define hard law as all law where there is little room for ambiguity with a lot of focus on uniformity, laws are hard to change, the content is made based

on knowledge of a presupposed condition and the norms have to be internalized for effective enforcement. We can think of hard law as no specific-targets, quotas, obligations, etc. The advantages of hard law are that nations are treated equal before the law, there is clarification of expectations and there is room for accountability. However it is very rigid and difficult to transform meaning it is less adaptable when needed and there is very little leeway or discussions for altering situations. On the flipside we have soft law which Trubek et al (2005) describe as informal arrangements and procedures of law and coordination which 'try to be adaptable and flexible, creating specified arrangements between nations on their own volition out of mutual self-interest which create lower transaction costs and political requirements'. In essence these are the methods of cooperation and policy making, discussion and revision in which there is more room for discussion, norms and informal rules dominate, deals are being made and small incremental changes are being made. One of the most famous forms of soft coordination is the Open Method of Coordination. The discrepancy between hard and soft coordination is mainly thus on the formality and accountability of the actual content that is created under these modes.

So how does this relate to the EFSM/EFSF/ESM? The EFSM is the least complex organised institution which is merely an emergency funding programme that lends from the market under a guarantee by the European Commission to the financially troubled European Union member states. Supervision for the EFSM was under the jurisdiction of the European Commission. The EFSF is a tad more complex and is organised under a chief executive officer. Under that The Board of the European Financial Stability Facility functions as a possibility for national input as 17 high level representatives from the EMU countries can send a financial expert to negotiate. The European Commission and the European Central Bank get to appoint observers to the meetings. The EFSF does not have accountability to the European Parliament and largely functions on cooperation with relevant committees to get the job done. We can largely see that the EFSF is structured in terms of soft coordination (webarchive EFSF, 2013). The reform to the ESM however tried to tackle these issues as they were controversial amongst the member states. The accountability issue and lack of transparency was tackled and the ESM organisation became formally nested in European law. The European Stability Mechanism inherited the same chief executive officer from the EFSF who is now the managing director. Under the managing directors there is a board of directors and a board of governors. The board of directors consists of a single high ranking single representative of the EMU member states (ESM, board of governors, 2013). The board of governors consists of the ministers of finance of the member states of the EMU countries (ESM, board of directors, 2013). We see that the ESM formally became more defined under the Treaty Establishing the European Stability Mechanism and the amendment to Article 136 on The Treaty on the Functioning on the European Union. However the parliament still has no oversight over the functioning of the boards of the ESM. Likewise agreements are made based on deals and negotiations showing still the turbulent and dynamic nature of the way agreements are made. However the actual agreements do get concretized though in the Memorandum of Understanding which is an example of resulting in hard coordination as feasible numbers and targets are set for receiving countries. The readjustment of the programme however shows the flexible nature of agreements, as the situation changes the numbers and targets become readjusted. We can thus conclude that we see elements of both types of coordination in the way the ESM functions but the agreements are made and coordinated in a soft type of coordination and thus that type tends to express itself more strongly.

ANNEX 2: DESCRIPTION OF THE TWO OTHER INTERVENING VARIABLES BETWEEN COMPLIANCE AND USE OF TREATIES AND EUROPEAN INTEGRATION

IMPACT ON INTERACTIONS BETWEEN SUPRANATIONAL, GOVERNMENTAL AND NON-GOVERNMENTAL ACTORS

One of the ways through which treaties and provisions have an influence is the way they impact interactions through changes on the international power relations, peer power relations, 3rd party involvement, etc. Provisions and institutions sometimes outright state how they want more involvement of certain actors and/or less involvement from actors - these examples present themselves in the Lisbon treaty of 2000 were for example: "The Union recognises and promotes the role of the social partners at its level, taking into account the diversity of national systems. It shall facilitate dialogue between the social partners, respecting their autonomy." So we can distinguish the three following elements of this intervening variable: firstly international power relations, Have the relations between supranational and national actors altered? Was there an increase in deliberation/co-operation and did the policy area gravitate more towards bargaining? Second, peer power relations. Did the changes lead to more policy co-ordination among actors or did certain actors gain more legacy? And third - the involvement of third party actors. Have the proper NGOs, social partners, private companies, etc. increased access, power or knowledge due to the institutional changes? While these factors are important to keep in mind if one wants the complete overview of the relationship of integration - it is not the focus of our research. Interactions between various actors is hard to quantify and the access to the (in)formal information on power relations is tricky. In the scope of achievable but also quantifiable research we have not included this variable in our research but suggest that to complement this research one can take a look at the changes caused by the ESM (and its predecessors). More on this in the section further research. Another important intervening variable that is part of the relationship but will not be discussed is a more 'sociological' one and will now be discussed.

IMPACT ON PUBLIC DEBATES WITHIN AND ACROSS MEMBER STATES

As relations change between actors in the network, but also with actors outside of the network with 3rd parties - we have to take in account the general wider population that can impact the positions of the actors in the institutional setting. For example: British exit of the European union was not intentionally done out of interest for the government nor its agents, it was done by and requested by the public. The public of member states hold a great position of power in determining future changes in institutions, provision- and policy-making. The British example shows us one of the elements of which this variable consists - legitimacy of the British national parliament was undermined in the eyes of the public. Too much was dictated from Brussels according to many leave voters thus perceiving it as a loss of sovereignty which in turn leads to anti-EU rhetoric and desire to leave the union. Europeanisation of the states also goes hand in hand with the previous element, as some European populations feel a shared identity of being European while others do not. The support for soft law did not increase in that case, while in

other states like Luxembourg there is a high pressure from the public to increase Europeanisation due to a high identification with the European identity (85% of the people identify as a EU citizen, Eurobarometer on European Citizenship in spring 2012). The identity and/or feeling of belonging to the European Union plays a large role in deciding how much integration unfolds, with (lack of) support of policies leading to the situation as is. However the most crucial variable (for this research) is the actual compliance with and use of the treaty provisions.

ANNEX 3: PORTUGUESE FULL 2011-2012 TECHNICAL COMPLIANCE ANALYSIS

2011

Administrative reforms: The program states there needed to be commitment control with compliance systems implemented in 2011 this was observed and timely implemented before Q2. Further Portugal had to adopt the statutes of the fiscal council which was observed, ahead of time instead of end of year already done in September and October. They also needed to conduct a study to assess the costs and benefits of merging social security administration, tax and customs which was not done fully in time, was completed in 2012. A new assessment of audit performance in the revenue administration was necessary was delayed as it needed to be done in fully in Q3, enhanced assessment to be finished still and was done in Q4. New legislation to insure implementation of the commitment control was to implemented on time with schedule. The design of the new structure that merges tax, customs and DGITA had to be completed and this was done when it was merged into a new structure named AT ahead of time. and finally they needed to prepare an IT Strategic Plan for the new merged revenue authority which was also provided on time. In general we can see that most of the required reforms were implemented, in a timely manner. Sometimes there was the matter of being delay or simply not enough administrative capacity to pull through with the changes or were there not enough competent people to occupy the position (like the auditing). Generally there is a lot of intended compliance, however they might not always be timely. Correct data, mostly on time with what delay and compliance with the requirements (albeit occasionally vacuous) means they had a rate of compliance score of 3. We saw two cases of overcompliance as seen in compliance controls and DGITA into AT merger yet also one case of vacuous implementation and a few cases of untimely adaptation - the commitment however was present despite shortfalls as we saw various departments completing reforms without too much resistance from parliament and opposition parties showing a strong commitment to improvement and cooperation meaning there is a spirit of the law/overcompliance score of 3 as there was significant intention with few results.

For State Owned Enterprises (SOE) and other agency or privatisation related reforms: the debt ceilings aren't met yet effectively as they were 8.2% instead of the 6% further plans were made to reduce future costs, operational costs were not met yet as implementation was ongoing and thus there was noncompliance it was however met in 2012. Tariff structure is to be reviewed and optimized and was partially observed as 15% public transport were implemented but no overview was provided for review. PPP analysis for 20 significant Public-Private partnerships (PPPs) were required and were done, 36 significant PPPs were analysed a clear larger number than required. Presenting operation cost reductions for regional government SOEs were not done in time and a partially covering white paper was only presented in November 2011. This covers the need to present and prepare a comprehensive SOE document which has only been partially presented with the white paper for the Local Business Sector in Portugal. Further they needed to tighten borrowing requirements for SOEs which was also not done. They had to submit to Parliament a new legal framework for SOEs (January 2012, partially observed still pending in parliament) this also ties in to the need for Portugal to set out a strategy for strengthening governance of SOEs at various levels. Finally Portugal had to prepare restructuring plans for local SOEs and the SOEs of each region which was partly observed in the

white paper on Local Business Sector in Portugal. Thus we see that privatisation and SOE reform generally goes extremely slow, with a lot of noncompliance and very slow competence with regards to implementation. This sector faces the most resistance to change both politically and operationally. Here we have to attribute low commitment to the Portuguese government as the European authorities in the third review stated that the privatisation, SOE and PPP reforms put a larger strain on Portuguese administrative capacity than expected. This might be one of the possibilities for the reason that there was little to no follow-up and overcompliance with the reforms, meaning it's a mere 2 as there was some intention to do well but nothing occurred. For general compliance we have to rate it at a 2 as most of the implementation was past deadlines and in the third review program it is also stated that the intention was there but it simply was not possible for Portugal to implement all the requirements in due time.

For data administration and publishing. Portugal needed to conduct and publish a comprehensive survey of arrears by end-August 2011 which was implemented only slightly too late. Enhance monthly reporting on budget basis which was indeed implemented on time, contrary to improving their annual report on tax expenditures which was not done in time and was delayed by a quartile. Likewise the need to establish intra-annual fiscal targets was not observed timely but was a quartile too late. A medium-term fiscal strategy document was created by late August, slightly ahead of time. Likewise public forecasts on the budget have been reported slightly ahead of time and was incorporated into the 2012 Budget Law. The needed reports on local and regional SOEs to be done by end-October were implemented in mid-October 2011. Reports on the state of IT in the revenue administration were observed on 30 September, largely ahead of time. Likewise the monthly arrears were reported to the European authorities with accuracy, the quarterly accounts for SOEs were generally available with correct data ahead of time as well - end 2011 data only missing. The need to recruit a top tier international accounting firm to complete a more detailed study of PPPs was complied with as a tender was set out in December and was realised in January (a relatively quick adoption) and reviewing the assessment of audit performance was thoroughly done and reported on. In general it seems that reporting again suffered occasionally from administrative capacity problems (third and fourth review programmes) but in general reforms happened well-enough as most targets were met and wherever possible it was done ahead of time. This means that for a compliance rate there was a score of 4 the data was always correct and mostly ahead of time. There seemed to be little overcompliance with the Portuguese government not overstepping their administrative boundaries.

On subject of governance of political levels and organisations. Portugal needed to submit draft legislation to reduce management positions and administrative units in central administration by end-October which was observed with a preliminary PREMAC report which came out in mid-September. Further they needed to draft a law and other initiatives to ensure annual decreases of at least 1% in the number of central administration employees in 2012-14 and of at least 2% at regional and local levels which was met and captured in draft 2012 budget law. Explore various options of settling the arrears which was partially done yet an improved still had to be submitted due to missing information. Another requirement was to insure that the Fiscal Council is operational as required per EU legislation which was adopted in time but opens in March. On decentralised government they needed to present a roadmap and options for the revision of the local and regional finance laws which were required for end of 2011 were created in end 2012 and adopted in beginning 2013 and will apply from 2014 onwards meaning a very significant

delay. Further decentralised governance was needed by preparing financial arrangement with Madeira which was done properly and on time. Financial closing of EDP privatisation was done albeit a bit too late (finalised in January instead of Q4). Initiation of the 2nd phase of the REN privatisation was done on time in December as required per Q4 but went into working in February 2012. Plans to privatise Parpublica were not successful as throughout 2011, 2012 and 2013 the project was not finalised due to complexity and administrative capacity. Reducing management positions and administrative units by 27% and 40%, respectively, in central government were nearly met with 46 in force and further 81 approved out of 150. Submitting law to Parliament to reduce management positions and administrative units in local administration; promote equivalent initiatives in regions was adopted and implemented on time. Carrying out a cost/benefit analysis of public entities (foundations, institutes, etc) was thoroughly observed with overcompliance on subject requirement. Drafting law on creation and functioning of public entities (foundations, institutes, etc) in central and local administration too was timely taken care of, follow up was done in 2012 with Law No 24/2012. Taking initiative to regulate the creation and functioning of public entities in regional administration was partially done with some crucial information still omitted. Identifying inefficiencies and duplications between the central, local and locally based central administration was not met due to overcapacity and was thus postponed to late 2013. Preparing plans of mobility of human resources within the administration was however absorbed in the 2012 Budget Law. Generally showing that requirements related to the 2012 Budget Law were all properly implemented and submitted timely. Privatisation remains a difficult process and this relates to decentralised governance too. Organisational changes with firing and/or hiring of people went more rapidly and accordingly. We see a general timeliness where possible (and administrative capacity is not lacking) thus meaning it results in a score of 4 for rate of compliance. Portugal tried to achieve its targets ahead of time where possible but that rarely happened - this means that they get a score of 2 for overcompliance.

For tax-law and collection they needed to implement the ongoing tax reform to reduce labour costs which did not happen in the desired time period. Introducing a standstill to all tax expenditure happened timely however as it was part of 2012 Budget Law. Implementing new tax arbitration law happened ahead of time in July already (instead of end of Q3). Preparing a strategic plan 2012-2014 for the revenue administration which was planned in Q4 was done in November 2011 already. Develop intra-annual targets and corrective measures for the general government cash balanced all went timely and properly. Applying interest charges on outstanding debt over the court appeal period was properly and timely implemented in the 2012 Budget Law. Ensuring full implementation of the Budgetary Framework Law was hard but achieved where possible, with a delay that will be completed eventually in April. Here we see clear overcompliance with the Portuguese government trying to be very timely and correct with their achieving of the targets granting them a 4 due to their significant intent (despite not always being always as successful) in general the compliance was good however with data being presented on time, the Budget Law requirements being all met with only a slight delay with implementation due to administrative capacity overload which nets them a 4 for rate of compliance.

2012

The government will achieve a general government deficit of no more than EUR 7645 million in 2012. This goal was not met either as we can see in figure 6.2. as the deficit was 9,529 million

(5.3% of GDP versus 4.5% agreed). The gap seems to be narrowing however. This was to do with noncompliance or delayed implementation of budget changes. To see whether or not this situation would change for the following year we need to see how Portugal pulled through for their required reforms in 2012. The same five categories as in 2011 will be used:

Administrative and institutional changes wise they needed to implement fully the strategy of shared services in central administration in the areas financial & human resources and IT. These shared services were implemented for human resources in 4 out of 10 Ministries by end of Q4 2012, with 6 being delayed with their implementation - only in Q1 of 2013 was it fully implemented and thus delayed. For the IT shared services it went a bit more swiftly albeit still a bit post deadline as agreement was in time but implementation took longer than expected. In general the shared services seemed to be a bit delayed as noted in the eleventh review. General compliance was there with regards to institutional changes but while the legislation was adopted the adaptation of system was slower than desired. Due to being just past date with generally truthful implementation it results in a rate of compliance score of 2,5. No overcompliance was present in this section meaning a score of 1.

On SOEs, PPPs and privatisation matters Portugal needed to draft law to regulate the creation and functioning of SOEs even further, done with Law No 24/2012 timely. Further to prepare an asset inventory, including real estate, owned by municipalities and regional government, examining scope for privatisation - this agreement was modified and complied with as the most important assets were set up for privatisation for start as per 2013, a year too late. Likewise as in 2011, the 2012 plans for privatisation went slower than desired and expected. The rate for adaptation of SOE reforms was swifter than for privatisation. In general the rate of compliance score is a 2 due to its delays for privatisation and 4 for SOE reforms, granting them a rate of compliance of 3. Lack of overcompliance means a score of 1.

Data management and gathering reforms. New legal and institutional framework for analysing PPPs which was implemented timely and covers PPPs at all layers. Publication of an annual PPP report was approved albeit with delay, a new coordination group (UTAP) was created for creating expertise on PPP reporting. Improving the SOE report by including a comprehensive fiscal risk report was achieved by creating a coordination group named ACSS, complete report will be done 2013 Q1. Publishing the annual report on fiscal risks was submitted in draft form on time but a more proper report will be published in 2013. In general we see delayed reporting albeit with correct information, the stress on the administrative apparatus is clear with these multitude of reforms on reporting and data management. Correct data but slightly delayed means a rate of compliance score of 2,5. Once again we see now intention or actual overcompliance meaning a score of 1.

For governance Portugal had to prepare a plan ensuring that the aggregate public sector wage bill as a share of GDP decreases in 2012 and 2013, this was however not achieved and was postponed to Q4-2013. It was also needed to eliminate inefficiencies and duplicities in the central, local and locally-based central administration and this measure too was postponed to late 2013. Municipalities had to present plans to reduce management positions and administrative units by at least 15% by the end of 2012 and this was achieved ahead of time as law No. 49/2012 was published in end August and the 15% was well achieved with a result between 23-36%. Reduce number of municipal tax offices by 20%, this target has been postponed to 2013 likewise it was increased to 25%. The need to increase to 30% the number of

auditors in the tax administration has not been met either and has been postponed to Q1 2014. This seemed to be the general trend for lower levels of Portuguese government, decentralised organs had difficulty processing the needs of the European partners and thus much, if not nearly all, was delayed to 2013. While Law no. 49/2012 was implemented timely the general trend was more negative - meaning a compliance score of 2. Likewise this section had no overcompliance, a score of 1.

Tax-collection and administration wise Portugal had to complete the implementation of the new structure that merges tax, customs and DGITA which happened smoothly and hardly affected the status quo. And finally Portugal had to implement a full-fledged Large Taxpayer Office (LTO), which was legislated and fully organised on target. Tax wise Portugal seems better able to legislate and implement changes and generally there is a higher rate of compliance - here being even ahead of time granting them a rate of compliance score of 4, and similarly a overcompliance score of 2.

ANNEX 4: SPAIN'S FULL PROGRAMME

Measure	Date
1. Provide data needed for monitoring the entire banking sector and of banks of specific interest due to their systemic nature or condition (Annex 1).	Regularly throughout the programme, starting end-July
2. Prepare restructuring or resolution plans with the EC for Group 1 banks, to be finalised in light of the Stress Tests results in time to allow their approval by the Commission in November.	July 2012 - mid August
3. Finalise the proposal for enhancement and harmonisation of disclosure requirements for all credit institutions on key areas of the portfolios such as restructured and refinanced loans and sectoral concentration.	End-July 2012
4. Provide information required for the Stress Test to the consultant, including the results of the asset quality review.	Mid-August 2012
5. Introduce legislation to introduce the effectiveness of SLEs, including to allow for mandatory SLEs.	End-August 2012
6. Upgrade of the bank resolution framework, i.e. strengthen the resolution powers of the FROB and DGF.	End-August 2012
7. Prepare a comprehensive blueprint and legislative framework for the establishment and functioning of the AMC.	End-August 2012
8. Complete bank-by-bank stress test (Stress Test).	Second half of September 2012
9. Finalise a regulatory proposal on enhancing transparency of banks	End September 2012
10. Banks with significant capital shortfalls will conduct SLEs.	before capital injections in Oct./Dec. 2012
11. Banks to draw up recapitalisation plans to indicate how capital shortfalls will be filled.	Early-October 2012
12. Present restructuring or resolution plans to the EC for Group 2 banks.	October 2012
13. Identify possibilities to further enhance the areas in which the Banco de España can issue binding guidelines or interpretations without regulatory empowerment.	End October 2012
14. Conduct an internal review of supervisory and decision-making processes. Propose changes in procedures in order to guarantee timely adoption of remedial actions for addressing problems detected at an early stage by on-site inspection teams. Ensure that macro-prudential supervision will properly feed into the micro supervision process and adequate policy responses..	End-October 2012
15. Adopt legislation for the establishment and functioning of the AMC in order to make it fully operational by November 2012.	Autumn 2012
16. Submit for consultation with stakeholders envisaged enhancements of the credit register.	End-October 2012
17. Prepare proposals for the strengthening of non-bank financial intermediation including capital market funding and venture capital.	Mid-November 2012
18. Propose measures to strengthen fit and proper rules for the governing bodies of savings banks and introduce incompatibility requirements regarding governing bodies of former savings banks and commercial banks controlled by them.	End-November 2012

Measure	Date
19. Provide a roadmap (including justified exceptions) for the eventual listing of banks included in the stress test which have benefited from state aid as part of the restructuring process.	End-November 2012
20. Prepare legislation clarifying the role of savings banks in their capacity as shareholders of credit institutions with a view to eventually reducing their stakes to non-controlling levels. Propose measures to strengthen fit and proper rules for the governing bodies of savings banks and introduce incompatibility requirements regarding the governing bodies of the former savings banks and the commercial banks controlled by them. Provide a roadmap for the eventual listing of banks included in the Stress Test, which have benefited from State aid as part of the restructuring process..	End-November 2012
21. Banks to provide standardised quarterly balance sheet forecasts funding plans for credit institutions receiving state aid or for which capital shortfalls will be revealed in the bottom-up stress test.	As of 1 December 2012
22. Submit a policy document on the amendment of the provisioning framework if and once Royal Decree Laws 2/2012 and 18/2012 cease to apply.	Mid-December 2012
23. Issues CoCos under the recapitalisation scheme for Group 3 banks planning a significant (more than 2% of RWA) equity raise.	End-December 2012
24. Transfer the sanctioning and licensing powers of the Ministry of Economy to the Banco de España.	End-December 2012
25. Require credit institutions to review, and if necessary, prepare and implement strategies for dealing with asset impairments.	End-December 2012
26. Require all Spanish credit institutions to meet a Common Equity Tier 1 ratio of at least 9% until at least end-2014. Require all Spanish credit institutions to apply the definition of capital established in the Capital Requirements Regulation (CRR), observing the gradual phase-in period foreseen in the future CRR, to calculate their minimum capital requirements established in the EU legislation.	1 January 2013
27. Review governance arrangements of the FROB and ensure that active bankers will not be members of the Governing Bodies of FROB.	1 January 2013
28. Review the issues of credit concentration and related party transactions.	Mid-January 2013
29. Propose specific legislation to limit the sale by banks of subordinate debt instruments to non-qualified retail clients and to substantially improve the process for the sale of any instruments not covered by the deposit guarantee fund to retail clients.	End-February 2013
30. Amend legislation for the enhancement of the credit register.	End-March 2013
31. Raise the required capital for banks planning a more limited (less than 2% of RWA) increase in equity.	End-June 2013
32. Group 3 banks with CoCos to present restructuring plans.	End-June 2013