DECISIONS

COMMISSION IMPLEMENTING DECISION (EU) 2019/1287

of 26 July 2019

on the prolongation of enhanced surveillance for Greece

(notified under document C(2019) 5900)

(Only the Greek text is authentic)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability ([1]), and in particular Article 2(1) thereof,

Whereas:

(1) Following the expiry of the European Stability Mechanism financial assistance on 20 August 2018, the Commission Implementing Decision (EU) 2018/1192 ([2]) activated enhanced surveillance for Greece for a period of six months, as from 21 August 2018. Commission Implementing Decision (EU) 2019/338 ([3]) prolonged it for an additional period of six months, as from 21 February 2019.

(2) Since 2010, Greece has received a substantial amount of financial assistance, as a result of which Greece's outstanding liabilities towards the euro-area Member States, the European Financial Stability Facility and the European Stability Mechanism come to a total amount of EUR 243 700 million. Greece received financial support from its European partners on concessional terms and specific measures to place debt on a more sustainable footing were adopted in 2012 and again by the European Stability Mechanism in 2017. On 22 June 2018, it was politically agreed in the Eurogroup to implement additional measures to ensure debt sustainability. These include the extension of weighted average maturities by an additional 10 years, the deferral of interest and amortisation by an additional 10 years as well as the implementation of other debt measures. Two additional measures (the abolition of the step-up interest rate margin related to the debt buy-back tranche of the European Financial Stability Facility programme as of 2018 and the restoration of the transfer of equivalent amounts to the income earned by euro-area national central banks on Greek government bonds held under the Agreement on Net Financial Assets and the Securities Market Programme) can be agreed bi-annually in the Eurogroup on the basis of positive reporting under enhanced surveillance on Greece's compliance with its post-programme policy commitments. In this regard, the release of the first tranche of policy-contingent debt measures worth EUR 970 million was implemented following agreement by the Eurogroup in April 2019.

(3) Greece has made a commitment in the Eurogroup to continue and complete all key reforms adopted under the European Stability Mechanism stability support programme ('the programme') and to safeguard the objectives of the important reforms adopted under that programme and its predecessors. Greece has also committed to implement specific actions in the areas of fiscal and fiscal-structural policies, social welfare, financial stability, labour and product markets, privatisation and public administration. Those specific actions, which are set out in an annex to the Eurogroup statement of 22 June 2018, will contribute to addressing Greece's excessive macro-economic imbalances and the sources or potential sources of economic difficulties.

([1]) OJ L 140, 27.5.2013, p. 1.

([2]) Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece (OJ L 211, 22.8.2018, p. 1).

([3]) Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the prolongation of enhanced surveillance for Greece (OJ L 60, 28.2.2019, p. 17).

(4) On 21 November 2018, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([4]), the Commission adopted the Alert Mechanism Report, in which it identified Greece as one of the Member States for which an in-depth review would be carried out. The in-depth review was included in the 2019 country report for Greece ([5]) published on 27 February 2019. The Commission concluded that while Greece has successfully restored its budget balance and significantly narrowed the deficit in the current account, it is experiencing excessive macroeconomic imbalances ([6]) as a legacy of the crisis. These relate to the high public debt, the negative net international investment position, the high level of non-performing loans on banks' balance sheets, and the still high unemployment rate. In particular, public debt stood at 181,1 % of Gross Domestic Product at the end of 2018, the highest level in the Union. The net international investment position of – 137,9 % of Gross Domestic Product in 2018 remains very high. Moreover, in spite of the significant narrowing of the current account deficit, it still remains insufficient to support a reduction of the very large net international investment position at a satisfactory pace to bring it down to levels considered prudent. While unemployment has continued to decline from its peak of 27,8 % in 2013, it still stood at 18,1 % in March 2019. Long-term unemployment (11,9 % in the first quarter of 2019) and youth unemployment (40,4 % in March 2019) remain very high.

(5) In light of the Commission's in-depth review and on the basis of a Commission assessment, the Council examined the 2019 National Reform Programme and the 2019 Stability Programme. It recommended ([7]) Greece to take action in 2019 and 2020 to achieve a sustainable economic recovery and tackle the excessive macroeconomic imbalances by continuing and completing reforms in line with the post-programme commitments given at the Eurogroup of 22 June 2018. The Council also recommended Greece to focus its investment-related economic policy in specific priority areas with a view to providing a solid underpinning for growth, while reducing regional disparities and ensuring social inclusion.

(6) The Commission published its third assessment under enhanced surveillance on Greece ([8]) on 5 June 2019. The assessment describes progress on Greece's general and specific reform commitments. It concludes that Greece has made a reasonable start to the post programme environment since August 2018. Real growth and employment creation has been maintained, and Greece once again overachieved its primary surplus target in 2018. Albeit with some delay, the completion of specific reform commitments due for the end of 2018 allowed the implementation of additional debt measures in April 2019. Greece has also started to regain market access and benefited from upgrades from credit rating agencies. However, the pace of reform implementation has slowed in recent months and the consistency of some measures with commitments given in the Eurogroup is not assured. The report also concluded that there are risks to the achievement of the agreed primary surplus target. Greece is therefore at an important juncture as regards policy choices needed to deliver a sustained and lasting economic recovery.

(7) While the banking sector remains sufficiently capitalised, the capital position slightly deteriorated during 2018 in a context of low profitability and weak asset quality, while deferred tax credits continue to account for a sizeable part of core tier 1 capital. The banking sector continues to face challenges, with improvements occurring at a slow pace, and significant vulnerabilities remain. These are linked to the large stocks of non-performing exposures and low levels of profitability, while there remain strong links with the State. Although the stock of non-performing exposures has been gradually declining from its peak of EUR 107,2 billion reached in March 2016, at end-2018, the stock was still very high at EUR 81,8 billion or 45,4 % of total on-balance-sheet exposures. Greece has adopted key reforms over the past years, and work is ongoing on a range of initiatives to strengthen the resolution framework for non-performing loans (NPL). However, additional efforts will be needed to achieve a faster NPL reduction, bring the non-performing-exposure ratio to sustainable levels, and enable financial institutions to fulfil their intermediation and risk management function.

(8) Notwithstanding progress over the last years, Greece still faces major challenges with regard to its business environment and judicial system. Greece still lags far behind the best-performance frontier in several areas of the structural components of leading comparative indicators (e.g. time to reach a judicial decision, enforcing contracts, registering property, resolving insolvency, etc.).

([4]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([5]) SWD(2019) 1007 final.
([6]) COM(2019) 150 final.
([7]) Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Greece and delivering a Council opinion on the 2019 Stability Programme of Greece.
([8]) European Commission: Enhanced Surveillance Report — Greece, June 2019, Institutional Paper 103, June 2019.

(9) After being cut off from financial market borrowing in 2010, Greece started to regain market access through issuances of government bonds as from July 2017. After a successful bond issuance in January 2019, Greece tapped the capital markets again in March 2019, issuing a 10-year government bond for the first time since 2010. In July 2019, Greece issued a 7-year bond, which will help to rebuild Greece's yield curve and increase liquidity in its bond market. Greece's borrowing conditions nonetheless remain fragile against the background of external economic risks and domestic vulnerabilities.

(10) In light of the above, the Commission concludes that the conditions justifying the establishment of enhanced surveillance pursuant to Article 2 of Regulation (EU) No 472/2013 are still present. In particular, Greece continues to face risks with respect to its financial stability which, if they materialise, could have adverse spill-over effects on other euro-area Member States. Should any spillover effects materialise, they could occur indirectly by impacting investor confidence and thus refinancing costs for banks and sovereigns in other euro-area Member States.

(11) Therefore, over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of difficulties and implementing structural reforms to support a robust and sustainable economic recovery, with a view to alleviate the legacy effects of several factors. These include the severe and protracted downturn during the crisis; the size of Greece's debt burden; its financial sector vulnerabilities; the continued relatively strong interlinkages between the financial sector and Greek public finances, including through State ownership; the risk of contagion of severe tensions in either of those sectors to other Member States, as well as euro-area Member States' exposure to the Greek sovereign.

(12) In order to address residual risks and monitor the fulfilment of the commitments geared thereto, it appears necessary and appropriate to prolong the enhanced surveillance of Greece pursuant to Article 2(1) of Regulation (EU) No 472/2013.

(13) Greece was given the opportunity to express its views on the assessment of the Commission, via a letter sent on 16 July 2019. In its response on 19 July 2019, Greece broadly concurred with the Commission's assessment of the economic challenges it faces, which is the basis for prolonging enhanced surveillance.

(14) Greece will continue to benefit from technical support under the Structural Reform Support Programme (as laid down in Regulation (EU) 2017/825 of the European Parliament and of the Council ([9])) for the design and implementation of reforms, including for the continuation and completion of key reforms in line with the policy commitments monitored under enhanced surveillance.

(15) The Commission intends to closely collaborate with the European Stability Mechanism, in the context of its Early Warning System, in implementing the enhanced surveillance,

HAS ADOPTED THIS DECISION:

Article 1

The period of enhanced surveillance of Greece under Article 2(1) of Regulation (EU) No 472/2013 activated by Implementing Decision (EU) 2018/1192 shall be prolonged for an additional period of six months, commencing on 21 August 2019.

([9]) Regulation (EU) 2017/825 of the European Parliament and of the Council of 17 May 2017 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (OJ L 129, 19.5.2017, p. 1).

Article 2

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 26 July 2019.

For the Commission
Pierre MOSCOVICI
Member of the Commission