DECISIONS

COMMISSION IMPLEMENTING DECISION (EU) 2021/271

of 17 February 2021

on the prolongation of enhanced surveillance for Greece

(notified under document C(2021) 998)

(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. Enhanced surveillance was subsequently prolonged four times ([3]), each time for an additional period of six months, the last time as from 21 August 2020.

(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. Some of these measures, including the transfer of amounts equivalent 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 a positive reporting under enhanced surveillance on Greece's compliance with its post-programme policy commitments. The release of the first four tranches of policy-contingent debt measures were implemented following an agreement by the Eurogroup in April 2019, December 2019, June 2020 and November 2020, respectively.

(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 macroeconomic 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 (OJ L 60, 28.2.2019, p. 17); Commission Implementing Decision (EU) 2019/1287 (OJ L 202, 31.7.2019, p. 110); Commission Implementing Decision (EU) 2020/280 (OJ L 59, 28.2.2020, p. 9); and Commission Implementing Decision (EU) 2020/5086 (OJ L 248, 31.7.2020, p. 20).

(4) On 26 February 2020, the Commission published the 2020 country report for Greece ([4]). The Commission concluded that Greece is experiencing excessive macroeconomic imbalances ([5]). While progress is visible in a number of areas, significant vulnerabilities and legacy issues remain, relating to the high public debt, the high level of non-performing loans on banks' balance sheets, and the external sector, in a context of still low growth potential and high unemployment rate. These findings were further confirmed by the Alert Mechanism Report, adopted by the Commission on 18 November 2020 on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([6]), prepared against the backdrop of the COVID-19 crisis, which identified Greece as one of the Member States for which an in-depth review would be carried out in 2021. In particular, the Alert Mechanism Report shows that while public debt declined in 2019, it is expected to increase above 200 % of Gross Domestic Product in 2020 reflecting the economic contraction and the cost of the necessary measures taken to mitigate the impact of the pandemic. Greece's financial sector remains challenged by a combination of low profitability, below average capital ratios and a large stock of non-performing loans. The net international investment position remains sizeably negative, though this includes large external public debt at highly concessional terms, and is forecast to deteriorate further on account of weaker inflows from tourism. Unemployment remains very high and the slowly declining trend has been temporarily interrupted by the crisis.

(5) Since the pandemic started, the EU and its Member States have taken unprecedented measures to protect lives and livelihoods. In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Greece continued to adopt measures to increase the capacity of its health system and expanded the set of fiscal and liquidity measures aiding persons and businesses that have been particularly affected. The EU supported national efforts to tackle the health crisis and cushion the impact of the economic hit. It freed-up its budget to fight the virus, activated the general escape clause of the Stability and Growth Pact, used the full flexibility of the State aid rules and created a new instrument to help people stay in work, the Support to mitigate Unemployment Risks in an Emergency ('SURE'). Along with measures taken by the European Central Bank, the European Stability Mechanism and the European Investment Bank, the EU response provides EUR 750 billion from the Next Generation EU instrument, to be implemented primarily through the Recovery and Resilience Facility. The Facility will provide significant support to the implementation of reforms and investments to strengthen Member States' economies. The Facility represents an opportunity for the Greek economy to recover from the current crisis and address the challenges it continues to face. In addition, under the multiannual financial framework for 2021-2027, EU funding of more than EUR 1 000 billion will be geared towards new and reinforced priorities across the EU's policy areas, including green and digital transitions.

(6) The Commission published its eighth assessment under enhanced surveillance on Greece ([7]) on 18 November 2020. It concluded that in spite of the adverse circumstances caused by the pandemic, Greece has taken the necessary actions to achieve its due specific reform commitments. The report noted that the authorities managed to restart the work on reform commitments in the past months, following a standstill in the first half of 2020 on account of the unprecedented events, and delivered on a number of fundamental reforms. The European institutions welcomed the close and constructive engagement in all areas and encouraged the authorities to keep up the momentum and, where necessary, reinforce the efforts to swiftly complete the implementation of recently adopted primary legislation. This is in particular the case for the financial sector reforms, where a large body of secondary legislation is to be completed and adopted shortly.

(7) In light of the Commission's 2020 in-depth review and on the basis of a Commission assessment, the Council examined the 2020 National Reform Programme and the 2020 Stability Programme. The Council took into account the need to tackle the pandemic and facilitate the economic recovery as a first necessary step to allow for an adjustment of imbalances. It recommended ([8]) Greece to take all necessary measures to effectively address the pandemic, including by strengthening the resilience of the health system, to develop short-time work schemes and effective activation support to mitigate the employment and social impacts of the crisis, to deploy measures to provide liquidity, and to promote public and private investments in a number of priority investment areas, including the green and digital transition. The Council also called on the authorities to continue and complete reforms in line with the post-programme commitments, so as to restart a sustainable economic recovery, following the gradual easing up of constraints imposed due to the COVID-19 outbreak.

([4]) SWD(2020) 507 final.

([5]) COM(2020) 150 final.

([6]) 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).

([7]) European Commission: Enhanced Surveillance Report – Greece, May 2020, Institutional Paper 127, May 2020.

([8]) Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Greece and delivering a Council opinion on the 2020 Stability Programme of Greece (OJ C 282, 26.8.2020, p. 46).

(8) The Greek banking sector has become more stable and resilient to shocks since the end of the European Stability Mechanism programme, but legacy risks and significant underlying vulnerabilities remain, reinforced by the negative impact of the coronavirus outbreak. Banks maintain adequate liquidity, taking advantage of accommodative monetary policy conditions, but the level of non-performing loans remains high, representing EUR 58,7 billion or 35,8 % of gross customer loan exposures as of September 2020 [9]. The decline in the stock of non-performing loans observed from its peak of EUR 107,2 billion in March 2016, has continued in the first nine months of 2020, albeit at a slower pace. However, the large share of loans benefiting from debt payment moratoria points to a significant risk of increased provisioning needs and deteriorating asset quality ratios when moratoria expire. A key element of the banks' strategy to tackle non-performing loans remains to move ahead with the securitisations under the Hercules scheme, which are expected to be concluded in the first half of 2021. The capital position of Greek banks is in line with regulatory requirements but faces increasing supervisory requirements and capital needs to fund the NPL deleveraging process in the medium term, while profitability is low and is expected to come under further pressure due to the economic effects of the pandemic. As a result, Greek banks are particularly exposed to the risk of potential increases in funding costs and renewed deterioration of asset quality due to the pandemic. The authorities successfully implemented or extended support measures to sustain access to finance for affected businesses, which complement initiatives at the level of commercial banks and servicers. They are also moving forward with crucial financial sector reforms, aiming to improve the existing tools for the resolution of non-performing loans, following past delays due to the adverse impact of the COVID-19 outbreak. These reforms, in particular the recently adopted overhaul of the fragmented insolvency regime, can contribute to mitigating the medium-term impact of the crisis on private sector indebtedness. The impact of these reforms will depend on the timeliness and effectiveness of their implementation.

(9) Notwithstanding progress over the last years in areas such as reducing the time to register a business and strengthening the protection of minority investors, Greece still faces major challenges with regard to its business environment and judicial system, evidenced by low performance in several areas (e.g. enforcing contracts, registering property, resolving insolvency, etc.). The authorities continue working towards improving the regulatory environment and boosting competitiveness, despite the difficulties faced due to the ongoing COVID-19 pandemic. Steady progress in implementing justice reforms, including actions to support mediation, and recent steps taken to reform product markets and improve market surveillance can contribute to Greece's recovery prospects but further efforts are needed to improve the business environment. The authorities are also advancing with key reforms to improve Greece's digital performance, which still remains among the lowest in the EU. Greece is also committed to the implementation of a major public procurement reform by the beginning of 2021, whilst it continues with the roll-out of complementary actions to further ease the administrative burden for businesses and citizens.

(10) 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. Greek government bond yields started to slowly moderate after the successful conclusion of the ESM programme in 2018 and declined significantly in 2019. Since the onset of the pandemic, Greece has successfully issued both treasury bills and long-term bonds, indicating sustained access to market financing. The current favourable financing conditions are supported by liquidity measures agreed at European level, including the European Central Bank's Pandemic Emergency Purchase Programme. On the basis of the debt sustainability analysis presented in the 8th enhanced surveillance report, the government gross financing needs are expected to hover around 15 % of GDP in the medium term.

(11) 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.

(9) Source: Bank of Greece, measured at solo level.

(12) 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.

(13) 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.

(14) Greece was given the opportunity to express its views on the assessment of the Commission, via a letter sent on 14 January 2021. In its response on 27 January 2021, Greece broadly concurred with the Commission's assessment of the economic challenges it faces, which is the basis for prolonging enhanced surveillance.

(15) Greece will continue to benefit from technical support provided under the new Technical Support Instrument, which will in particular support Member States in the preparation and implementation of their recovery and resilience plans.

(16) 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 February 2021.

Article 2

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 17 February 2021.

For the Commission

Paolo GENTILONI

Member of the Commission