DECISIONS

COMMISSION IMPLEMENTING DECISION (EU) 2020/280

of 20 February 2020

on the prolongation of enhanced surveillance for Greece

(notified under document C(2020) 901)

(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 twice ([3]), each time for an additional period of six months, the last time as from 21 August 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 and second tranches of policy-contingent debt measures were implemented following agreement by the Eurogroup in April and December 2019 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) and Commission Implementing Decision (EU) 2019/1287 (OJ L 202, 31.7.2019, p. 110).

(4) On 27 February 2019, the Commission published the 2019 country report for Greece [4]. 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 [5] 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. These findings were further confirmed by the Alert Mechanism Report, adopted by the Commission on 17 December 2019 on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [6], which identified Greece as one of the Member States for which an in-depth review would be carried out in 2020. In particular, the report shows that public debt in Greece stood at 181,2 % of Gross Domestic Product at the end of 2018, the highest level in the Union. The net international investment position of -143,3 % of Gross Domestic Product in 2018 remains very high, though this includes large external public debt at highly concessional terms. 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 16,6 % in October 2019. Long-term unemployment (12,1 % in the third quarter of 2019) and youth unemployment (35,6 % in October 2019) remain very high, though they have also declined substantially compared to their peaks during the crisis (long term unemployment had peaked at 19,9 % in the second quarter of 2014 and youth unemployment at 60,2 % in February 2013).

(5) In light of the Commission's 2019 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 fourth assessment under enhanced surveillance on Greece [8] on 20 November 2019. It concluded that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019, but that further actions will be crucial to complete, and where necessary accelerate, reforms. This assessment took into account the efforts of the new administration over the preceding months to implement the commitments, in the context of advancing a broader reform agenda, and its willingness to prepare them in close cooperation with the institutions.

(7) The authorities are in the process of catching up with the financial sector reforms but the plans will need to be firmed up going forward. The liquidity situation of Greek banks has further improved and there are signs that the banks' market access is gradually re-established but legacy risks and challenges remain high. Their capital position remains adequate but may face near term pressures, for instance due to the gradual phasing out of transitional prudential arrangements. Banks still have to deal with a large stock of non-performing loans: Although the stock has been gradually declining from its peak of EUR 107,2 billion reached in March 2016, at end-September 2019, the stock was still very high at EUR 71,2 billion or 42,1 % of total on-balance-sheet gross customer loan exposures. The recently adopted Hercules asset protection scheme, once implemented, aims to facilitate a significant acceleration of the current strategies for the reduction of non-performing loans in the banking sector. Other challenges include the fragile profitability in the current low interest-rate environment and the strong sovereign-bank nexus, including through the high share of deferred tax credits in banks' capital. The improving liquidity situation of Greek banks and increased depositor confidence led to the complete lifting of capital controls as of 1 September 2019.

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[4] SWD(2019) 1007 final.

[5] COM(2019) 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] 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, November 2019, Institutional Paper 116, November 2019.

(8) Notwithstanding progress over the last years, Greece still faces major challenges with regard to its business environment and judicial system. Whilst Greece has made progress in areas such as reducing the time to register a business and strengthening the protection of minority investors, it 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.).

(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. Greek government bond yields started to slowly moderate after the successful conclusion of the ESM programme in 2018 and declined significantly further in the second half of 2019, reaching record lows of 1,4 % on the 10-year tenure in December 2019, down from 4,3 % a year earlier. Greece's borrowing conditions nonetheless remain fragile against the background of external economic risks and domestic vulnerabilities. Greece has also benefited from upgrades from credit rating agencies but remains below investment grade.

(10) In light of the above, the Commission concludes that the conditions justifying the establishment of enhanced surveillance pursuant to Article 2 of Regulation (EC) 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 22 January 2020. In its response on 27 January 2020, 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 February 2020.

([9]) Regulation (EU) 2017/825 of the European Parliament and 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, 20 February 2020.

For the Commission
Paolo GENTILONI
Member of the Commission