Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the prolongation of enhanced surveillance for Greece (notified under document C(2019) 1481) (Only the Greek text is authentic)

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on the prolongation of enhanced surveillance for Greece

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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 of Greece for a period of six months, as from 21 August 2018.

(2) Greece should continue key institutional and structural reforms over the medium term so as to ensure their completion and full effectiveness, building on the substantial number of actions implemented by it under the European Stability Mechanism financial assistance programme (‘the programme’). To that end, Greece has made a commitment in the Eurogroup to continue and complete all key reforms adopted under the programme and to safeguard the objectives of the important reforms adopted under that programme and its predecessors.

(3) 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 address potential sources of Greece's economic difficulties.

(4) 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. The measures 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.

(5) Greece's general government balance has been positive since 2016. Greece is expected to have met the primary surplus target of 3,5 % of Gross Domestic Product in 2018 and is projected to achieve the target over the medium term. External net lending turned positive in 2015, and has shown only small deficits thereafter. The economy has continued to recover, with growth at an estimated 2,0 % in 2018, and unemployment is on a declining path. Greece initiated a broad structural reform agenda to improve its business environment and competitiveness under the financial assistance programmes and has continued to take measures in that area since August 2018.

(6) Even so, notwithstanding those reforms, Greece continues to experience significant legacy stock imbalances and vulnerabilities. In particular, as is also identified by the Commission's 2019 Alert Mechanism Report, prepared pursuant to Articles 3 and 4 of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], Greece faces some difficulties. Public debt is estimated to have stood at 182,8 % of Gross Domestic Product at the end of the third quarter of 2018, the highest level in the Union. The net international investment position of – 140,5 % of Gross Domestic Product in 2017 also remains highly elevated; moreover, in spite of the current account being close to balance, it is still insufficient to support a reduction of the large net international investment position to prudent levels at a satisfactory pace. While unemployment has continued to decline from its peak of 27,9 % in 2013, it still stood at 18,6 % in October 2018. Long-term unemployment (13,5 % in the third quarter of 2018) and youth unemployment (39,1 % in November 2018) also remain very high. The business environment and the judicial system still need considerable additional improvement, as 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.).

(7) While the banking sector remains sufficiently capitalised, it continues to face challenges linked to large stocks of non-performing exposures and low levels of profitability, while there remain strong links with the State. At end-September 2018, the stock of non-performing exposures was still very high at EUR 84,7 billion or 46,7 % of total on-balance-sheet exposures. Greece has adopted key reforms under the programme, and intends to develop additional tools in the near term, to strengthen the framework for the resolution of non-performing exposures and thereby to facilitate the clean-up of

banks' balance sheets. Notwithstanding, continuous efforts will be needed to bring the non-performing-exposure ratio to sustainable levels, and enable financial institutions to fulfil their intermediation and risk management function at all times.

(8) After being cut off from financial market borrowing since 2010, Greece started to regain market access through issuances of government bonds as from July 2017. Greece had a successful bond issuance in January 2019, which was its first issuance since the exit from the programme. Greece's borrowing conditions nonetheless remain fragile against the background of external economic risks and domestic challenges in sustaining reform implementation over the medium term.

(9) The Commission published its first assessment under enhanced surveillance on Greece on 21 November 2018. The assessment carried out by the Commission and reflected in its Communication described progress on Greece's general and specific reform commitments made in the Eurogroup and concluded that reform implementation has progressed but further efforts were needed to fulfil Greece's reform commitments[(4)].

(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. Those factors 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 the 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 14 February 2019. In its response on 15 February 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[(5)]) 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.