COUNCIL IMPLEMENTING DECISION (EU) 2015/1411

of 19 August 2015

approving the macroeconomic adjustment programme of Greece

THE COUNCIL OF THE EUROPEAN UNION,

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 7(2) thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) Article 136(1) of the Treaty on the Functioning of the European Union ('TFEU') foresees the possibility of adopting measures specific to Member States whose currency is the euro in order to ensure the proper functioning of economic and monetary union.

(2) Since 2010, Greece has been granted financial assistance by the Member States and the International Monetary Fund ('IMF'). A first Economic Adjustment Programme for Greece was been agreed on 2 May 2010: the euro area Member States agreed to provide bilateral loans, pooled by the European Commission, for a total amount of EUR 80 000 million to be disbursed over the period May 2010 through June 2013 and the IMF committing additional EUR 30 000 million under a stand-by arrangement. The Second Economic Adjustment Programme for Greece was approved on 14 March 2012. The euro area Member States and the IMF committed the undisbursed amounts of the first programme plus an additional EUR 130 000 million for the years 2012-2014. Whereas the financing of the first programme was based on bilateral loans, it was agreed that — on the side of euro area Member States — the second programme would be financed by the European Financial Stability Facility ('EFSF'), which had been fully operational since August 2010. In total, the second programme foresaw financial assistance of EUR 164 500 million until the end of 2014 (the period was later extended until the end of June 2015). Of that sum, the euro area commitment amounts to EUR 144 700 million to be provided via the EFSF, while the IMF contributed EUR 19 800 million, as part of a four-year EUR 28 000 million arrangement under the Extended Fund Facility for Greece that the IMF approved in March 2012.

(3) On 8 July 2015, in view of the ongoing severe economic and financial disturbance, the Greek authorities requested financial assistance from the European Stability Mechanism ('ESM') in order to ensure a properly-functioning Greek banking system, to meet Greece's debt obligations, to support the return of Greece's economy to sustainable growth and safeguard financial stability of the euro area and of its Member States.

(4) Pursuant to Article 13(1) of the ESM Treaty, and to form the basis for a decision of the ESM Board of Governors, in line with Article 13(2) thereof, whether to grant, in principle, stability support to Greece in the form of a loan, on 8 July 2015 the Chairperson of the ESM Board of Governors entrusted the European Commission, in liaison with the European Central Bank ('ECB'), with assessing the existence of a risk to the financial stability of the euro area as a whole or its Member States; assessing, together with the IMF, whether public debt is sustainable; and estimating the actual or potential financing needs of Greece.

(5) In compliance with Article 13 of the ESM Treaty, the European Commission, in liaison with the ECB, and with input from IMF staff, completed those assessments on 10 July 2015, concluding that conditions for the financial support for Greece, to be provided in the form of an ESM loan, are in place. The financing needs were estimated to be up to EUR 86 000 million.

(6) On 17 July 2015, Greece was granted EUR 7 160 million short-term financial assistance under the European Financial Stabilisation Mechanism ('EFSM'), by Council Implementing Decision (EU) 2015/1181 ([2]), for facing July 2015 repayment obligations and settling its arrears to the IMF. The assistance was disbursed in one instalment on 20 July 2015, and was linked to economic policy conditionality. The ESM assistance will be used, inter alia, to repay that short-term EFSM bridge loan.

([1]) OJ L 140, 27.5.2013, p. 1.
([2]) OJ L 192, 18.7.2015, p. 15.

(7) On 16 July 2015, the ESM Board of Governors invited the Commission, in liaison with the ECB, the ESM, the Greek authorities, and, where appropriate, the IMF, to agree on a macroeconomic adjustment programme for Greece. The programme was prepared in accordance with the procedure provided for under Article 7(1) of Regulation (EU) No 472/2013. On 11 August 2015, those institutions reached an agreement at technical level on a macroeconomic adjustment programme (the 'Programme') with the Greek Government. The Programme submitted by Greece to the Commission and the Council aims at ensuring the adoption of a set of reforms needed to improve the sustainability of public finances, as well as to ensure financial stability and to promote growth, employment, and social fairness.

(8) Following that agreement, Greece should adopt a comprehensive policy package, to be implemented in a three-year macroeconomic adjustment programme which would span from the third quarter of 2015 to the third quarter of 2018.

(9) The comprehensive policy package, to be laid down in an ESM Memorandum of Understanding on Specific Economic Policy Conditionality (the 'Memorandum of Understanding'), should aim at restoring financial market confidence, re-establishing sound macroeconomic balances and enabling the economy to return to sustainable growth. It should be structured on four pillars: restoring fiscal sustainability, safeguarding financial stability, enhancing competitiveness and growth, and modernising the state and the public administration.

(10) The Commission services updated their forecast for nominal GDP growth in August 2015, as needed to underpin the negotiations for the ESM programme. Under this forecast, which centres around a nominal GDP growth rate of – 3,2 % in 2015, – 0,7 % in 2016, 3,4 % in 2017, 4,1 % in 2018 and 4,2 % in 2019, the debt-to-GDP ratio would amount to 196,3 % in 2015, 200,9 % in 2016, 198,6 % in 2017, 190,7 % in 2018 and 182,3 % in 2019. The debt-to-GDP ratio would therefore increase until 2016 and move to a declining path thereafter, reaching an estimated 174,5 % in 2020, with debt dynamics affected by several below-the-line operations. Under the Commission services' update of the forecast for nominal GDP growth, the primary general government balance is projected to attain a deficit of EUR 7 631 million (4,4 % of GDP) in 2015, a deficit of EUR 6 166 million (3,6 % of GDP) in 2016, a deficit of EUR 4 089 million (2,3 % of GDP) in 2017 and a deficit of EUR 753 million (0,4 % of GDP) in 2018.

(11) The authorities will pursue a new fiscal path premised on primary surplus targets of – 0,25, 0,5, 1,75, and 3,5 % of GDP in 2015, 2016, 2017 and 2018 and beyond, respectively. The trajectory of the fiscal targets is consistent with expected growth rates of the Greek economy as it recovers from its deepest recorded recession.

(12) Enhancing the long-term resilience of the Greek banking sector is critical to restoring financial stability in Greece and to preserving financial stability in the euro area as a whole. To preserve the liquidity of the Greek banking sector, temporary administrative measures were imposed, including capital controls.

(13) The implementation of comprehensive and ambitious reforms in financial, fiscal and structural areas should safeguard the medium-term sustainability of the Greek public debt.

(14) The Commission, in liaison with the ECB and, where appropriate, the IMF, should verify at regular intervals the rigorous implementation of Greece's Programme through missions and regular reporting, on a quarterly basis, by the Greek authorities.

(15) Throughout the implementation of Greece's comprehensive policy package, the Commission should provide additional policy advice and technical assistance in specific areas.

(16) The Greek authorities should involve, in accordance with current national rules and practices, the social partners and civil society organisations in the preparation, implementation, monitoring and evaluation of the Programme.

(17) Any form of financial assistance received by Greece to help it implement the policies under its Programme should be in line with the legal requirements and policies of the Union, in particular the Union's economic governance framework. Any intervention in support of financial institutions should be carried out in accordance with the Union's rules on competition. The Commission should ensure that any measures laid down in a Memorandum of Understanding in the context of requested ESM financial assistance are fully consistent with this Decision,

HAS ADOPTED THIS DECISION:

Article 1

1. In order to facilitate the return of the Greek economy to a path of sustainable growth and to fiscal and financial stability, Greece shall rigorously implement the Programme, the main elements of which are laid down in Article 2 of this Decision. The Programme shall address the specific risks emanating from Greece for the financial stability of the euro area and shall aim to rapidly re-establish a sound and sustainable economic and financial situation in Greece and restore its capacity to finance itself fully on the international financial markets. The Programme shall take due account of the Council recommendations addressed to Greece under Articles 121, 126, 136 and 148 TFEU as well as Greece's actions to comply with them, while aiming to broaden, strengthen and deepen the policy measures required.

2. The Commission, in liaison with the ECB and, where appropriate, the IMF, shall monitor Greece's progress in implementing its Programme. Greece shall give the Commission and the ECB its full cooperation. It shall, in particular, provide them with all the information that they deem necessary for the monitoring of the Programme.

3. The Commission, in liaison with the ECB and, where appropriate, the IMF, shall examine with the Greek authorities any changes and updates to the Programme that may be needed in order to take proper account of, inter alia, any significant gap between macroeconomic and fiscal forecasts and realised figures, negative spillover effects, as well as macroeconomic and financial shocks.

In order to ensure the smooth implementation of the Programme and to help the correction of imbalances in a sustainable way, the Commission shall provide continued advice and guidance on fiscal, financial market and structural reforms.

The Commission shall at regular intervals assess the economic impact of the Programme and shall recommend necessary corrections with a view to enhancing growth and job creation, securing the necessary fiscal consolidation, and minimising harmful social impacts.

Article 2

1. The key objectives of the Programme shall be: restoring fiscal sustainability, safeguarding financial stability, enhancing competitiveness and growth, and modernising the state and the public administration.

2. Greece shall pursue fiscal consolidation by means of high-quality permanent measures while minimising the impact on disadvantaged people. The Greek authorities commit to ensuring sustainable public finances and achieve sizeable and sustainable primary surpluses over the medium-term that will reduce the debt-to-GDP ratio steadily. The authorities shall accordingly pursue a new fiscal path premised on primary surplus targets of – 0,25, 0,5, 1,75, and 3,5 per cent of GDP in 2015, 2016, 2017 and 2018 and beyond, respectively. Greece shall target a medium-term primary surplus of 3,5 % of GDP to be achieved through a combination of upfront parametric fiscal reforms, including to its VAT and pension system, supported by an ambitious programme to strengthen tax compliance and public financial management, and fight tax evasion, while ensuring adequate protection of vulnerable groups. In addition to the measures above, the authorities commit to legislate in October 2015 credible structural measures yielding at least 0,75 % of GDP coming into effect in 2017 and 0,25 % of GDP coming into effect in 2018 to support the achievement of the medium-term primary balance target of 3,5 % of GDP. The authorities commit to take further structural measures in October 2016, if needed to secure the 2017 and 2018 targets. Those would include containing defence expenditure, the planned personal income tax reform and freezing statutory spending. Parametric fiscal measures shall be bolstered by a wide range of administrative actions to address shortfalls in tax collection and enforcement. The Greek Government shall monitor fiscal risks, including court rulings, and shall take offsetting measures as needed to meet the fiscal targets. The authorities intend to transfer at least 30 % of any over-performance to the segregated account earmarked for debt reduction. In addition, another 30 % of the over-performance would be used for clearing unpaid government obligations linked to the past.

3. Greece shall adopt the measures specified below:

(i) take measures in the short term to raise revenues and to target and contain expenditure. Among the measures to raise revenue, Greece shall gradually abolish the refund of excise tax on diesel oil for farmers and increase the tonnage tax. The authorities shall take actions to launch the 2015 property tax (ENFIA) exercise in order to issue

bills in October 2015 with the final instalment due in February 2016. They shall also correct identified issues with the revenue measures recently implemented. The authorities also committed to target and contain expenditure by reducing the cost of healthcare and launching the comprehensive social welfare review. The package includes further measures with budgetary impact, such as public administration reforms, reforms addressing shortfalls in tax collection enforcement, and other parametric measures;

(ii) to demonstrate its commitment to credible fiscal policies, adopt in October 2015, a supplementary 2015 budget as needed, the draft 2016 budget and a 2016-2019 Medium-Term Fiscal Strategy, supported by a sizable and credible package of parametric measures and structural fiscal reforms;

(iii) enact reforms of both direct and indirect taxation to improve efficiency, collectability and boost labour supply. To break from past practice and improve the tax and social security payment culture, the Government shall take strong action to improve collection, and neither introduce new instalment or other amnesty or settlement schemes nor extend existing schemes;

(iv) continue reforms that aim at improving the budget process and expenditure controls, clearing arrears, and strengthening budget reporting and cash management. The Government is committed to making the Fiscal Council operational;

(v) take further action in the area of public procurement to increase efficiency and transparency of the Greek public procurement system, prevent misconduct, and ensure more accountability and control. Policies will be agreed with the European Commission, which shall assist with the implementation of an action plan;

(vi) implement fully the existing reforms and also proceed with further reforms to strengthen long-term sustainability, targeting savings of around 0,25 % of GDP in 2015 and around 1 % of GDP by 2016. The package inter alia aims to create strong disincentives for early retirement through increasing early retirement penalties and by the gradual elimination of the grandfathering of rights to retire before the statutory retirement age;

(vii) continue reforming the healthcare sector, controlling public expenditure, managing prices of pharmaceuticals, improve hospital management, increase centralised procurement of hospital supplies, manage demand for pharmaceuticals and health care through evidence-based e-prescription protocols, commission private sector healthcare providers in a cost-effective manner, modernise IT systems, developing a new electronic referral system for primary and secondary care that allows the formulation of care pathways for patients;

(viii) adopt by March 2016 a further series of guaranteed employment support schemes with individualised active labour market measures for participants, using local partnerships, involving the private and social economy sectors and ensuring the efficient and effective use of the resources available.

Achieving a fairer society will require that Greece improve the design of its welfare system, so that there is a genuine social safety net which targets scarce resources at those in most need. The authorities plan to benefit from available technical assistance from international organisations for the social welfare review and for the guaranteed minimum income implementation.

4. To safeguard financial stability, Greece shall immediately take steps to tackle Non-Performing Loans (NPLs) and restore liquidity and capital in the banking system. A recapitalisation process of banks should be completed before the end of 2015, which shall be accompanied by concomitant measures to strengthen the governance of the Hellenic Financial Stability Fund ('HFSF') and of banks. Further measures involve the resolution of Non-Performing Loans ('NPLs') and the governance of the HFSF and of banks.

5. To promote growth, competitiveness and investment, Greece shall design and implement a wide range of reforms in labour markets and product markets (including energy) that not only ensure full compliance with European Union requirements, but also aim at achieving European best practices. More open markets are essential to create economic opportunities and improve social fairness, by curtailing rent-seeking and monopolistic behaviour, which has translated into higher prices and lower living standards. In line with their growth strategy, the authorities shall intensify their efforts to bring key initiatives and reform proposals to fruition as well as enrich the agenda with further ambitious reforms that shall support the country's return to sustainable growth, attract investments and create jobs.

6. The Greek energy markets need wide-ranging reforms to bring them in line with Union legislation and policies, make them more modern and competitive, reduce monopolistic rents and inefficiencies, promote innovation, favour the wider adoption of renewables and gas, and ensure the transfer of benefits of all these changes to consumers. The authorities shall adopt the reform of the gas market and its specific roadmap, leading inter alia to full eligibility to switch supplier for all customers by 2018, and notify the reformed capacity payments system (including a temporary and a permanent mechanism) and New Organisation of Markets in Electricity products to the Commission. In any case, by 2020 no undertaking shall be permitted to produce or import, directly or indirectly, more than 50 % of total electricity produced and imported in Greece.

7. There shall be an ambitious privatisation programme and policies which support investment. The Government commits to facilitate the privatisation process and complete all needed Government actions to allow tenders to be executed successfully. In this respect the Government shall complete all actions needed as agreed on a quarterly basis between the Hellenic Republic Asset Development Fund ('HRADF'), the institutions and the Government. The List of Government Pending Actions has been approved by the Board of Directors of the HRADF. In line with the statement of the Euro Summit of 12 July 2015, a new independent fund (the 'Fund') shall be established and have in its possession valuable Greek assets. The overarching objective of the Fund is to manage valuable Greek assets; and to protect, create and ultimately maximise their value which it shall monetise through privatisations and other means.

8. A modern state and public administration shall be a key priority of the Programme. Particular attention shall be paid to increasing the efficiency of the public sector in the delivery of essential public goods and services. Measures shall be taken to enhance the efficiency of the judicial system and to upgrade the fight against corruption. Reforms shall strengthen the institutional and operational independence of key institutions such as the revenue administration and the statistics institute (Elstat).

Article 3

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 19 August 2015.

For the Council
The President
J. ASSELBORN