DECISIONS

COMMISSION IMPLEMENTING DECISION (EU) 2022/216

of 15 February 2022

on the prolongation of enhanced surveillance for Greece

(notified under document C(2022) 865)

(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 six times ([3]), each time for an additional period of six months, the last time as from 21 August 2021.

(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 240 875 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 six tranches of policy-contingent debt measures were implemented following an agreement by the Eurogroup in April 2019, December 2019, June 2020, November 2020, June 2021, and December 2021 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. These commitments, which are the basis for the release of additional debt relief measures, were established up to mid-2022 and thus Greece has entered the final year of this arrangement. The authorities expressed an intention to focus their efforts on delivering outstanding commitments by mid-2022. The decisions on the release of the remaining debt relief measures as well as the ending of enhanced surveillance will need to take account of the progress towards completion of commitments as well as the wider economic policy environment.

([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); Commission Implementing Decision (EU) 2020/5086 (OJ L 248, 31.7.2020, p. 20); Commission Implementing Decision (EU) 2021/271 (OJ L 61, 22.2.2021, p. 3); and Commission Implementing Decision (EU) 2021/1279 (OJ L 280, 3.8.2021, p. 2).

(4) On 2 June 2021, the Commission published the 2021 in-depth review for Greece ([4]). The Commission concluded that Greece continues to experience excessive macroeconomic imbalances. These imbalances related to high government indebtedness, the high share of non-performing loans and incomplete external rebalancing, in a context of still high – although declining – unemployment and low potential growth. The analysis undertaken in the Alert Mechanism Report 2022 ([5]) identified Greece as one of the Member States where the persistence of macroeconomic risks and progress in the unwinding of excessive imbalances would be further examined in the spring 2022 in-depth review. This assessment was underpinned by a number of considerations, including: Firstly, the government debt-to-GDP ratio increased by 26 percentage points in 2020, to 206,3 % of GDP, reflecting the depth of the recession and the impact of the measures to limit the economic and social cost of the COVID-19 crisis. Even though public debt is high, a large share of it has been extended by official creditors at concessional rates, which, together with the large cash buffer, insulates Greece from short-term fluctuations. The government debt ratio is forecast to start decreasing in 2021. Secondly, banking sector profitability turned negative in 2020 and the common equity tier 1 capital ratio is one of the lowest in the EU, partly due to the ongoing clean-up of banks' balance sheets. While still high, at 15 % in September 2021 ([6]), the non-performing loans ratio decreased markedly in 2020 and has continued falling in 2021. Thirdly, external sustainability worsened in 2020 as the negative net international investment position (as a ratio of GDP) fell further on account of the contraction in GDP and the marked deterioration of the current account deficit to -6,6 % of GDP. However, with the return of tourism, the current account deficit is forecast to narrow in 2021 and 2022. Finally, the unemployment rate continued declining even during the pandemic, mainly due to government support measures. According to the latest data for the third quarter of 2021, the unemployment rate for Greece stands at 13,0 %, three percentage points below the same quarter of 2020. The government has continued undertaking measures relevant to the addressing of the excessive imbalance despite the ongoing pandemic. Looking forward, Greece's recovery and resilience plan provides an opportunity to address investment and reforms needs.

(5) The Commission published its twelfth assessment under enhanced surveillance on Greece ([7]) on 24 November 2021. It concluded that Greece has further progressed towards achieving its specific commitments, despite delays encountered in some areas, partly linked to the challenging circumstances caused by the pandemic or the catastrophic fires in August 2021. The authorities delivered on specific commitments in the energy sector and public financial management, while making important and welcome steps towards completion of most of its specific commitments by April 2022.

(6) The EU established on 23 December 2021 a Recovery Instrument, which provides EUR 750 billion to tackle the adverse economic consequences of the COVID-19 crisis and boost the recovery. The Instrument is to be implemented notably through the EUR 672,5 billion Recovery and Resilience Facility ('the Facility'). The 2020-2021 European Semester of policy coordination was temporarily adapted to allow for the launch of the Facility. Through the Facility, Greece is entitled to receive up to EUR 17,8 billion in non-repayable support and up to EUR 12,7 billion in loans in 2021-2026.

(7) Greece's Recovery and Resilience Plan ('the plan') was approved by the Council on 13 July 2021 ([8]). The Council in particular considered that the plan contributes to effectively addressing a significant subset of economic and social challenges identified in the country-specific recommendations, including the fiscal aspects thereof, and recommendations made pursuant the Macroeconomic Imbalances Procedure. The reforms included in the Greek Recovery and Resilience Plan build on the very large reform effort undertaken under the economic adjustment programmes and are complementary to reforms monitored under enhanced surveillance. On 29 December 2021 Greece has submitted its first payment request under the Recovery and Resilience Facility.

(8) On 24 November 2021, the Commission examined Greece's 2022 Draft Budgetary Plan, taking into account the continued application of the general escape clause and focusing on the consistency with the Council Recommendations of 18 June 2021. According to the Commission assessment ([9]), Greece's fiscal stance in 2022 is projected to be supportive. As recommended by the Council, Greece plans to provide continued support to the

([4]) Communication from the Commission on Economic Policy Coordination in 2021: Overcoming COVID-19, Supporting the Recovery and Modernising our Economy, COM(2021) 500. In-depth Review for Greece, SWD(2021) 403.
([5]) Alert Mechanism Report 2022, COM/2021/741.
([6]) Source: Bank of Greece, measured at solo level.
([7]) European Commission: Enhanced Surveillance Report – Greece, November 2021, COM(2021) 916.
([8]) Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Greece.
([9]) Commission Opinion on the Draft Budgetary Plan of Greece, C(2021) 9503.

recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Greece also plans to preserve nationally financed investment. Commission noted that, given the level of Greece's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission also recalled the importance of the composition of public finances and the quality of budgetary measures.

(9) Since the onset of the pandemic, Greece maintained its presence on the bond markets and over-executed its funding plan in 2021, raising €14 billion on the open market. Greece's sovereign credit rating has continued to improve in 2021 despite the pandemic, further narrowing the gap to investment grade. 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 12th enhanced surveillance report, the government gross financing needs are expected to remain elevated in the short term mainly due to the high primary deficit projected for 2021 and 2022, and the recording of the financial flows under the Loan Facility presented in the Recovery and Resilience Plan, although the latter additional financing need is expected to be covered by the disbursement of the Recovery and Resilience Facility loan. In the following years, financing needs are expected to be moderate and remain below 15 % of GDP until 2030. Greece continues to maintain a high cash buffer, which protects Greece against short-term fluctuations.

(10) 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. Deposits have continued to grow steadily and banks maintain adequate liquidity, taking advantage of accommodative monetary policy conditions. The ratio of non-performing loans in the banking sector has strongly declined to 15 % in September 2021, down from 40,6 % in December 2019 ([10]), mostly due to a series of securitisations supported by the 'Hercules' asset protection scheme. Further planned transactions under the scheme are expected to continue supporting Greek banks in their effort to reach single digit ratios of non-performing loans in 2022, which would however still remain above the EU average. The risk of a significant adverse impact on asset quality following the expiry of the debt moratoria measures has not materialized so far. However, downside risks persist and could materialise in 2022 following the lifting of remaining state support programmes. The debt repayment capacity of both households and non-financial corporations remains low, while the underdeveloped capital market limits firms' access to non-debt financing. The securitisations of non-performing loans result in increased provisioning needs, which weigh on banks' profitability and their capital positions in the short-term, but will allow banks to reduce their cost-of-risk going forward and free up space in their balance sheets for new lending. The sovereign-bank nexus was reinforced during the pandemic crisis and overall quality of banks' capital remains low but successful capital enhancing actions took place in 2021. The authorities remain committed to relevant financial sector reforms, such as the effective functioning of the new insolvency framework, which entered into force in June 2021 and is now supported by the relevant electronic infrastructure. The recent adoption of an extensive revision of the Code of Civil Procedure is also expected to increase the efficiency of enforcement proceedings, including the conduct of e–auctions, while work is ongoing to enhance the functionality of the e-auctions platform and complete the clearance of the backlog of household insolvency cases and called state guarantees. The impact of these reforms will depend on the timeliness and effectiveness of their implementation but it is positive that the debt enforcement process has restarted, following the pandemic-related disruptions to court proceedings.

(11) In addition, the authorities have adopted a number of other key reforms under enhanced surveillance that are relevant for addressing the root causes of Greece's economic difficulties, notwithstanding delays in certain areas, in part owing to challenges induced by the ongoing pandemic and, more recently, the wildfires in summer 2021. Notably, the authorities adopted a wage reform for the Public Revenue Authority, allowing it to attract and retain qualified staff, or public financial management reforms improving the accounting and the cash monitoring systems. The authorities further sizeably increased the share of centralised procurement for health care purchases and continue well with collecting back from health care providers any excess spending above the legislated spending limits. They also completed the rollout of the Social Solidarity Income scheme and undertaken a review of the system of subsidies for local public transport. These measures are expected to increase the efficiency of public spending and revenue collection, thus contributing to the reduction of the high debt ratio going forward. The labour market is expected to benefit from the actions undertaken to tackle undeclared work and an orderly implementation of the minimum wage updates. Furthermore, the government completed an energy sector reform and adopted investment licensing legislation to simplify relevant procedures. The authorities also introduced

([10]) Source: Bank of Greece, measured at solo level.

environmental criteria harmonised with EU legislation in the assessment of economic activities and increased transparency of the inspections framework for the supervision of economic activities and product markets. All these are expected to materially ease the burden on the industrial sector, support private investments and exports, and productivity growth going forward. The authorities also successfully closed a number of flagship privatisation transactions and continue improving the governance of state-owned enterprises on a continuous basis. The efficiency of the public sector is expected to be further supported by reforms increasing the independence and accountability of senior management in the public administration and the continued exercise of performance assessment of public officials. A number of specific commitments remain outstanding and the authorities continue making progress towards completing their implementation ([11]). The reforms undertaken under enhanced surveillance have been complemented by broader structural reforms, including as regards the public procurement framework, access to digital public services, education, the management of public investments or reforms improving coordination at central government level.

(12) 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 have considerably improved but are still present. In particular, Greece's financial stability has been strengthened, while downside risks remain. At the same time, the risks of spillover effects on other euro-area Member States have greatly diminished.

(13) Therefore, Greece needs to complete the implementation of measures set out in an annex to the Eurogroup statement of 22 June 2018 addressing the sources or potential sources of difficulties and support a robust and sustainable economic recovery.

(14) 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.

(15) Greece was given the opportunity to express its views on the assessment of the Commission, via a letter sent on 21 December 2021. In its response on 10 January 2022, Greece broadly concurred with the Commission's assessment of the economic challenges it faces, which is the basis for prolonging enhanced surveillance.

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

(17) 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 2022.

Article 2

This Decision is addressed to the Hellenic Republic.

([11]) See e.g. European Commission: Enhanced Surveillance Report – Greece, November 2021, COM(2021) 916, and the Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Greece and the accompanying Commission assessment SWD(2021) 155.

Done at Brussels, 15 February 2022.

For the Commission
Paolo GENTILONI
Member of the Commission