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Recommendation for a

COUNCIL RECOMMENDATION

on the 2019 National Reform Programme of Greece and delivering a Council opinion on the 2019 Stability Programme of Greece

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to 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[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 21 November 2018, the Commission adopted the Annual Growth Survey, marking the start of the 2019 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 21 March 2019. On 21 November 2018, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Greece as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was endorsed by the European Council on 21 March 2019. On 9 April 2019, the Council adopted the recommendation on the economic policy of the euro area ('Recommendation for the euro area').

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

(2) As a Member State, whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Greece should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendation (1) and (2) below. In particular, reforms in line with the post-programme commitments and focusing economic policy related to investment in the specified areas will help address the euro area recommendation.

(3) The 2019 country report for Greece[3] was published on 27 February 2019. It assessed Greece's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 27 February 2019[4]. The Commission's analysis led it to conclude that Greece is experiencing excessive macroeconomic imbalances. The imbalances identified related in particular to the high public debt, the negative net international investment position, the high non-performing loans on banks' balance sheets and the still high unemployment rate. In addition, deep institutional and structural reforms initiated in recent years to modernise the economy and the State will require many years of sustained implementation for their impact to be fully felt.

(4) On 26 April 2019, Greece submitted its 2019 National Reform Programme and, on 30 April 2019, its 2019 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[5], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance[6].

(6) Greece is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. It should also preserve a sound fiscal position which ensures compliance with the primary surplus target set by Decision (EU) 2017/1226 on 30 June 2017 of 3.5% of GDP for 2018 and over the medium term[7]. In spring 2018, the Council issued no country-specific recommendation to Greece in the context of the European Semester because pursuant to Article 12 of Regulation (EU) No 472/2013[8] Greece was exempt from the monitoring and assessment under the European Semester at that time since it was subject to a macroeconomic adjustment programme. The post-programme framework for Greece entails the activation of enhanced surveillance

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3 SWD(2019) 1007 final.

4 COM(2019) 150 final.

5 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

6 COM(2014) 494 final.

7 Council Implementing Decision (EU) 2017/1226 of 30 June 2017 amending Implementing Decision (EU) 2016/544 approving the macroeconomic adjustment programme of Greece (2015/1411), OJ L 174, 7.7.2017, p. 22.

8 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, OJ L 140, 27.5.2013, p. 1

together with Greece's integration to the European Semester framework of economic and social policy coordination, while maximising the synergies between the enhanced surveillance and European Semester processes.

(7) In its 2019 Stability Programme, the government plans a headline surplus of between 1.1% and 1.7% of GDP over 2019-2022. The government set its medium-term budgetary objective – a budget surplus of 0.25% of GDP in structural terms as of 2020. Based on the recalculated structural balance[9], this medium-term budgetary objective is planned to be overachieved throughout the programme period and the general government debt-to-GDP ratio is expected to gradually decline to 153.3% in 2022. The macroeconomic scenario underpinning those budgetary projections has been endorsed by an independent body and is favourable. Based on the Commission 2019 spring forecast, the structural balance is forecast to register a surplus of 1.9% of GDP in 2019 and 0.8% of GDP in 2020, above the medium-term budgetary objective. General government debt is forecast to remain on a downward path and to comply with the transitional debt rule in 2019 and with the debt rule in 2020. Overall, based on the Commission 2019 spring forecast and thus excluding the new measures adopted after its cut-off date, Greece was projected to comply with the provisions of the Stability and Growth Pact in 2019 and 2020. On the same basis, Greece was also considered to comply with the 3.5% of GDP primary surplus target monitored under the enhanced surveillance framework.

(8) The Stability Programme and Commission 2019 spring forecast do not incorporate new permanent measures announced and adopted shortly after their respective submission and cut-off dates. The Commission estimates the fiscal impact of these measures to exceed 1.0% of GDP in 2019 and subsequent years. It is also assessed that the adoption of these new measures poses a risk for the agreed primary surplus target, as monitored under the enhanced surveillance framework and set by the by Decision (EU) 2017/1226 of 30 June 2017. Moreover, the new measures are expected to reduce the structural balance, raising concerns on the achievement the medium-term budgetary objective in 2020. But, a re-assessment will be carried out in autumn 2019, and will include a revision of the applicable benchmark for the net expenditure growth rate in 2020. While general government debt is forecast to remain on a downward path, some risks could be posed to compliance with the debt reduction benchmark. This will have to be reassessed in autumn as a result of these newly adopted measures.Following its successful completion of the financial assistance programme under the European Stability Mechanism, Greece is subject to a post-programme surveillance framework integrated into the European Semester and is subject to enhanced surveillance in accordance with Regulation (EU) No 472/2013. The activation of enhanced surveillance for Greece[10] acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of macroeconomic imbalances, while implementing structural reforms to support a robust and sustainable economic growth. Greece made a commitment in the Eurogroup of 22 June 2018 to continue all key reforms adopted under the programme until they are fully completed. Greece also committed to implementing specific actions related to fiscal and fiscal-structural policies, social

[9] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology

[10] 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, and Commission Implementing Decision (EU) 2019/338 of 20 February 2019 on the prolongation of enhanced surveillance for Greece, OJ L 60, 28.2.2019, p. 17.

welfare, financial stability, labour and product markets, privatisation and public administration. Greece is subject to quarterly reporting on progress with implementing its commitments under enhanced surveillance, where a favourable report can, on a six monthly basis, pave the way for the release of debt relief measures worth 0.7% of GDP per annum. The release of the first tranche of policy-contingent debt measures worth EUR 970 million was agreed by the Eurogroup in April 2019. The third Enhanced Surveillance report assessing Greece's progress with the implementation of its commitments was published on 5 June 2019.

(9) Reforms that improve the business environment and the quality of institutions, in particular the efficiency of the justice system, would foster economic resilience in Greece, improve payment discipline and should have a significant impact on investment decisions and attracting businesses. Despite recent improvements, the Greek judicial system still faces challenges and displays inefficiencies, as the time to reach a decision is often too long and backlogs weigh on the productivity of courts. Further targeted action in this area is therefore critical, also to facilitate the smooth functioning of the financial system as well as help unlocking investment potential.

(10) Several years of underinvestment have led to major investment gaps in Greece. Increasing growth-enhancing investment will be instrumental in underpinning longer-term growth and reducing regional disparities. The country report identified priority areas for public and private sector investment.

(11) Higher investment in education and training is crucial to improve Greece's productivity and long-term inclusive growth and address barriers to growth in innovative sectors. The Greek education system faces several challenges with inadequate resources, low autonomy, underachievement in basic (including digital) skills and persisting skills mismatches. At all levels, accountability and monitoring, which are necessary for quality improvement of the education system, are largely missing. Promoting quality and inclusive education and training, establishing closer links between education and labour market needs, improving the attractiveness of vocational education and training, and increasing participation in life-long learning are important for underpinning sustainable growth.

(12) The share of long-term unemployed, who represented 70% of the unemployed in Greece in 2018, is very high, while high youth unemployment and low labour market participation of women are also a matter of concern. Interventions should focus on improving employment prospects, promoting labour market participation, and fostering conditions for job creation. Effective social dialogue and responsible social partnership in Greece can support the environment for the implementation and ownership of sustained reforms, resulting in a better functioning of the labour market.

(13) Greece is characterised by high income inequality and has the lowest impact of social transfers on reducing the risk of poverty in the EU (15.83% in 2017 versus an EU average of 33.98%). Investments should focus on enhancing access to inclusive, affordable and high quality social services, as well as on developing day-care centres. Supporting the most deprived and promoting the social integration of children at risk of poverty, of persons with disabilities, of migrants and refugees, while paying attention to geographic disparities would improve social inclusion in Greece.

(14) Greece initiated a far-reaching reform of the primary healthcare system in 2017, which is crucial to ensure access and requires continued investment through the deployment of local healthcare units (the so called "TOMYs").

(15) The Greek transport system faces significant challenges. It is largely road-based and heavily dependent on oil, with all main connections rotating around the Athens–Thessaloniki route. Transport costs are still high while the quality of service, safety standards and penetration of intelligent transport systems remains low. New investment is needed to increase multimodal transport and promote regional integration and urban development.

(16) Treatment of solid waste and urban and industrial wastewater is the main area needing additional investment in order to align the country's environmental protection standards with the rest of the EU. The management of solid waste continues to be a major structural challenge, with Greece still relying heavily on landfilling and mechanical-biological treatment instead of more modern techniques. In addition, the proportion of municipal waste that is recycled is only about a third of the EU average. Investments are also needed to improve water treatment, combat ground water salinisation, and support measures to prevent flooding and restore the natural flow of rivers.

(17) Underdeveloped infrastructures increase energy costs for businesses and households and form a barrier to the uptake of renewable energy. Greece faces a particular challenge here with the electricity connectivity of islands and the connection with neighbouring countries. Further development of commercial gas infrastructure would help grow the market. The reform of both the gas and electricity markets should strive to take advantage of these new infrastructure opportunities.

(18) The digital transformation of the economy and society remains challenging, with low access to high-speed broadband networks and digital skills well below the EU average. Greece particularly needs to invest in information and communication technology, also to make up for the investment slump during the crisis. Insufficient higher speed broadband connectivity creates major bottlenecks for dynamic export oriented businesses. The investment in innovation and people's skills is insufficient to promote productivity growth, and the lack of digital skills among the population at large is preventing them from finding employment and hindering the development of innovative businesses.

(19) Renewed 'smart specialisation' strategies at national and regional level, and additional measures to address the most pressing weaknesses of the research and innovation system, are needed to stimulate market-oriented investment in research and development, which remains low and weighs on Greece's growth potential. Advances in scientific excellence are hindered by the low intensity of public research and development, a lack of a performance-based funding system and weak science-business links. Higher investment is also needed to boost the low levels of technological development, reflected in the very low number of patents compared with other Member States, and to fully tap into the potential of start-ups and scale-ups.

(20) As a crosscutting theme, investment in the regeneration of deprived urban areas, islands and highlands is needed to counter the loss and deteriorated quality of the country's physical and human capital during the economic crisis. Sustainable re-development of disadvantaged and/or de-industrialised areas in the Athens-Piraeus and Thessaloniki conurbations and in the principal peripheral urban centres (Patras, Heraklion, Larissa, Ioannina, Agrinion and Chalkis) is a specific short to medium-term priority. Longer-term priorities include developing of sustainable productive activities, upgrading mobility and security systems, energy efficiency and renewable energy, environmental protection and improving resilience to natural risks and socio-economic

crises. Interventions should also target the social inclusion, the integration of migrants, the acquisition of skills to reduce unemployment, and cultural activities to increase the attractiveness of deprived areas. Addressing these challenges through integrated urban renewal strategies would maximise the chances of achieving the best economic, social and environmental outcomes.

(21) The programming of EU funds for the period 2021-2027 could help address some of the gaps identified in the recommendations, in particular in the areas covered by Annex D to the country report[11]. This would allow Greece to make the best use of those funds in respect of the identified sectors, taking into account regional disparities. Strengthening the administrative capacity for the management of the Funds is an important factor for the success of investment.

(22) In the context of the 2019 European Semester, the Commission has carried out a comprehensive analysis of Greece's economic policy and published it in the 2019 country report. It has also assessed the 2019 Stability Programme and the 2019 National Reform Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Greece, but also their compliance with Union rules and guidance. This reflects the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(23) In the light of this assessment, the Council has examined the 2019 Stability Programme and is of the opinion that Greece is expected to comply with the Stability and Growth Pact.

(24) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2018 National Reform Programme and the 2018 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1) and (2) below. Those recommendations also contribute to the implementation of the first four of the Recommendations for the euro area.

HEREBY RECOMMENDS that Greece take action in 2019 and 2020 to:

1. 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.

2. Focus investment-related economic policy on sustainable transport and logistics, environmental protection, energy efficiency, renewable energy and interconnection projects, digital technologies, research and development, education, skills, employability, health, and the renewal of urban areas, taking into account regional disparities and the need to ensure social inclusion.

Done at Brussels,

For the Council
The President

[11] SWD(2019) 1007 final.