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Post-programme surveillance

August 2020

Summary

The Commission's post-programme surveillance applies to Member States exiting an adjustment programme to ensure that they have the capacity to repay the financial assistance provided. Five EU Member States (Ireland, Portugal, Spain, Cyprus and Greece) are currently under post-programme surveillance, having received financial assistance after the 2008 financial crisis.

The purpose of the audit is to examine the design, implementation and effectiveness of the Commission's post-programme surveillance for the five Member States concerned. The audit will look at whether the Commission's work provided creditors with assurance regarding Member States' repayment capacity. In particular, it will assess whether the Commission drew appropriate conclusions from its assessments/analyses and took relevant measures where needed to help the Member States concerned maintain a sound economic and financial position.

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Background

Sovereign debt crisis

A number of EU Member States experienced a sovereign debt crisis as a direct consequence of the 2008 economic and financial crisis. This first affected non euro area countries, starting with Hungary in 2008 and followed by Romania and Latvia in 2009. All three countries sought financial assistance from the EU's balance of payments mechanism (BoP)¹. In 2010, the crisis spread to the euro area, with Greece the first of several countries to apply for external financial assistance.

However, the BoP mechanism only applies to non euro area Member States, and there was no equivalent instrument for euro area Member States. Specific mechanisms were therefore developed to provide financial support to euro area Member States. These included the Greek loan facility agreement (GLF), the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM).

These mechanisms were adopted under pressure, and no EU legislation was in place to provide a corresponding surveillance framework or governance structure.

Surveillance of Member States facing serious difficulties / receiving financial assistance

In May 2013, the European Parliament and the Council adopted a regulation² to bridge this gap by organising the surveillance of euro area Member States facing serious difficulties or receiving financial assistance. This regulation provides for three different types of surveillance:

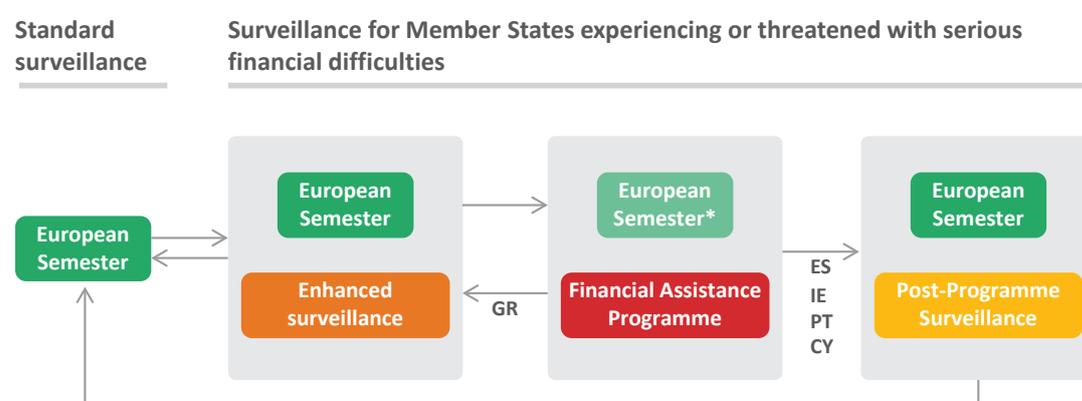
- **enhanced surveillance;**
- **programme-based surveillance;** and
- **post-programme surveillance (PPS).**

All EU Member States are subject to standard surveillance for policy coordination under the European Semester³ (green in [Figure 1](#)). If, however, a Member State experiences serious financial difficulties, it may be placed under enhanced surveillance (orange), which complements this standard surveillance. If the economic situation of the Member State improves, it remains under European Semester surveillance alone. If its situation worsens, the Member State can apply for a financial assistance programme (red). In that case, the Member State is exempt from monitoring and

assessment under the European Semester (as for Greece, Portugal, Ireland and Cyprus). However, where the programme is less comprehensive, for example a sectoral adjustment programme as in the case of Spain, whose programme focused on the financial sector, the European Semester still applies.

After exiting a financial assistance programme, the Member State is placed under PPS (yellow). The aim of PPS, which is implemented alongside the European Semester, is to ensure that Member States are able to repay the financial assistance granted, while continually assessing the economic, fiscal and financial situation and identifying any risks to medium-term viability. This is currently the situation for Ireland, Portugal, Spain and Cyprus. However, if by the end of the programme period the Commission considers that there is still a risk to financial stability, it may decide to subject the Member State to enhanced surveillance instead of PPS, as in the case of Greece (see [Figure 1](#)).

Figure 1 – Economic and financial surveillance of Member States



* European Semester applies only when Adjustment Programme is not a fully-fledged programme (e.g. Financial Sector Assistance Programme for Spain)

Legend: colours indicate intensity of surveillance from GREEN (low) to RED (high)

Source: ECA.

When the Member State's economic situation is sound again and it has repaid at least 75 % of its loans, standard European Semester surveillance applies.

The minimum initial surveillance period following exit from the financial assistance programme is the time needed to repay 75 % of the loans, but this can change due to early repayments or further restructuring. Current PPS periods range from 12 years (Spain) to 41 years (Greece).

The length of the PPS period makes it difficult to identify in advance the risks stemming from government policies or external events that could jeopardize Member States' ability to pay back financial assistance. The repayment periods exceed the timeframe of the current Commission forecast (two years ahead) and Member States' electoral cycles (4 to 5 years), as well as the Commission's long-term assessment of debt sustainability (generally 10 years).

The EU legislative framework for PPS

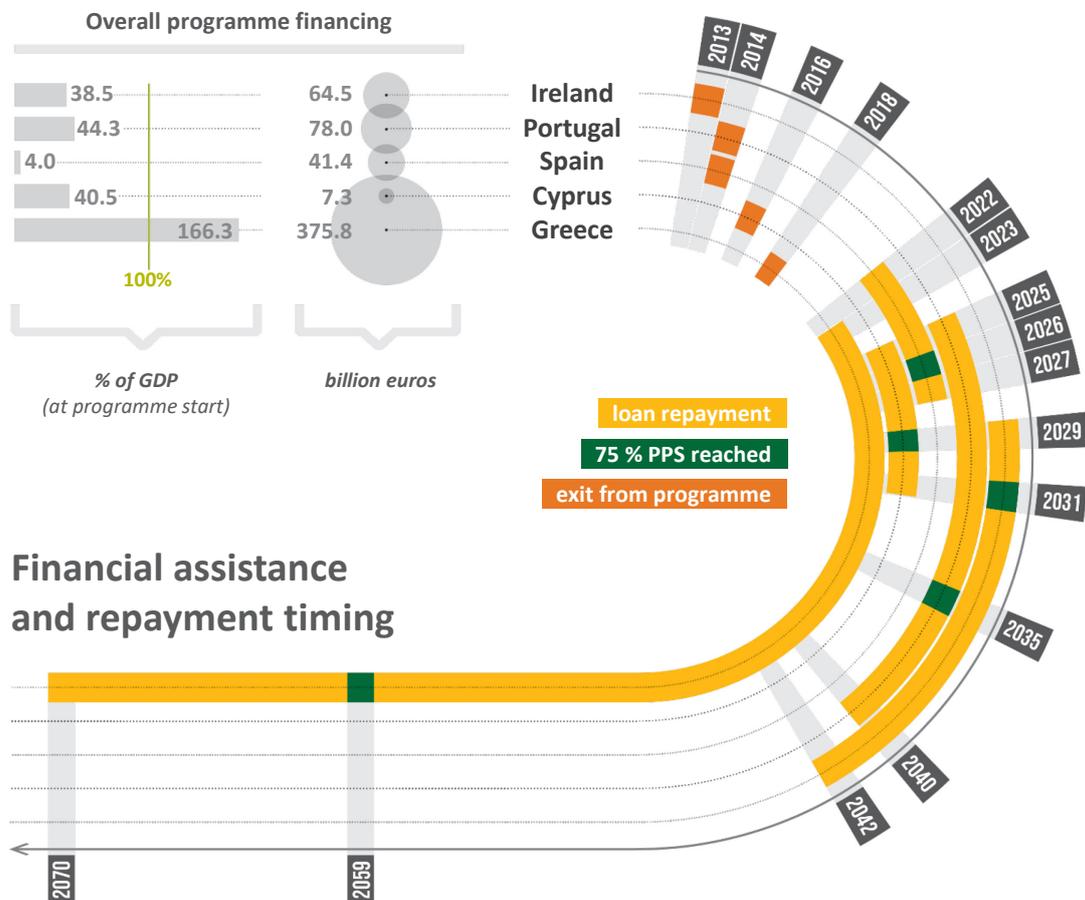
The legal base for PPS is embedded in the so-called "Two Pack", which entered into force on 30 May 2013. It consists of two Regulations:

- **Regulation (EU) No 472/2013** 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, which provides a surveillance framework and governance structure for financial assistance. This Regulation is the main legal basis for post-programme surveillance.
- **Regulation (EU) No 473/2013** on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, which builds on and complements the Stability and Growth Pact (SGP), the European framework for fiscal surveillance.

Financial impact

Currently, five EU Member States (Ireland, Portugal, Spain, Cyprus and Greece) are under post-programme surveillance, having received financial assistance after the 2008 financial crisis. The overall programme financing and the initial repayment timings are shown in **Figure 2**:

Figure 2 – Financial assistance and repayment timing



Source: ECA, based on Commission programme documents and AMECO database.

Roles and responsibilities

The **Commission** is the key player in post-programme surveillance. It is responsible for assessing the economic, fiscal and financial situation of the Member State concerned and reporting to the European Parliament, the Economic and Financial Committee (EFC) and the Member States' national parliaments. For this purpose, the Commission can request specific information from the Member States (e.g. in-year budgetary execution information, disaggregated information on developments in their financial system).

The Commission may also ask a Member State under PPS to carry out stress test exercises or sensitivity analyses to assess the resilience of the financial sector. It may also ask Member States to assess their supervisory capacity over the financial sector and to carry out a comprehensive independent audit of the public accounts of the general government.

The **European Stability Mechanism** (ESM) is the main provider of stability support to euro area Member States experiencing or threatened by severe financial problems. It therefore has a direct interest and an obligation to ensure that it receives any repayments due from the Member States. To this end, the ESM operates an Early Warning System (EWS), a signalling tool, but so far has not published any reports on analyses and/or activities performed under the EWS.

In April 2018, the Commission and ESM signed a Memorandum of Understanding (MoU) that commits them to combining PPS and EWS visits to Member States to prevent duplication and reduce the burden on the Member State. The MoU also commits the parties to making arrangements for information exchange and reciprocal data access (confidentiality permitting).

The **Council** may issue recommendations for corrective action if the Commission concludes that the financial and economic situation of the Member State concerned has a significant adverse effect on the financial stability of the euro area or of its Member States and that further measures are needed. The Council may recommend that the Member State adopt precautionary corrective measures or prepare a draft macroeconomic adjustment programme.

The **European Central Bank**, and the relevant European Supervisory Authorities (ESAs), where appropriate, take part in the review visits to the Member State, monitor developments in the financial system and supervise the stress test exercises and sensitivity analyses. The ECB (or the relevant ESAs where appropriate) also regularly assesses the Member State's supervisory capacities over its financial sector by means of a specific peer review.

The **Member State** concerned is required to provide information and carry out additional actions upon request, as mentioned above. Its parliament may participate in economic dialogue with representatives of the Commission, ECB and IMF. The Member State must implement the measures agreed under the programme, along with any CSRs and PPS corrective action. To date, the Commission has not proposed any recommendations for corrective action under the PPS.

The **IMF**, while not involved in the Commission's surveillance, also carries out post-programme monitoring when it has provided funds under a financial assistance programme.

Focus of the audit

The audit will look at the design, implementation and effectiveness of the Commission's post-programme surveillance for the five euro area Member States concerned (Greece, Spain, Portugal, Ireland and Cyprus). In particular, it will assess whether:

- the Commission's work provided creditors with assurance regarding Member States' repayment capacity;
- the Commission drew appropriate conclusions from its assessments/analyses and took relevant measures where needed to help the Member States concerned maintain a sound economic and financial position.

As far as possible, the audit will take account of the impact of the COVID-19 crisis on the Commission's assessment of Member States' public finances and the repayment capacity of Member States under PPS. The audit will also consider the suitability of PPS as a monitoring tool to support surveillance of the implementation of the economic recovery fund currently under negotiation.

Since we identified the issues underlying these areas of enquiry before the audit work commenced, they should not be regarded as audit observations, conclusions or recommendations.

This audit complements previous work on financial assistance to Member States and EU economic governance under the Six- and Two-Packs⁴.

ABOUT ECA SPECIAL REPORTS AND AUDIT PREVIEWS

The ECA's special reports set out the results of its audits of EU policies and programmes or management topics related to specific budgetary areas.

Audit previews provide information in relation to an ongoing audit task. They are based on preparatory work undertaken before the start of the audit and are intended as a source of information for those interested in the policy and/or programme being audited.

If you wish to contact the team in charge of this audit, please email:
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- ¹ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/balance-payments-bop-assistance-facility_en.
- ² 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.
- ³ The European Semester was put in place in 2010 to monitor and coordinate Member States' economic and fiscal policies. Each year, the Commission undertakes a detailed analysis of each country's plans for budgetary, macroeconomic and structural reforms. It then provides Member State governments with country-specific recommendations for the next 12-18 months.
- ⁴ ECA Special Report 18/2015, "Financial assistance provided to countries in difficulties";
ECA Special Report 19/2015, "More attention to results needed to improve the delivery of technical assistance to Greece";
ECA Special Report 10/2016, "Further improvements needed to ensure effective implementation of the excessive deficit procedure";
ECA Special Report 17/2017, "The Commission's intervention in the Greek financial crisis";
ECA Special Report 03/2018, "Audit of the Macroeconomic Imbalance Procedure (MIP)";
ECA Special Report 18/2018, "Is the main objective of the preventive arm of the Stability and Growth Pact delivered?";
ECA Special Report 22/2019, "EU requirements for national budgetary frameworks: need to further strengthen them and to better monitor their application";
ECA Special Report 16/2020, "The European Semester – Country Specific Recommendations address important issues but need better implementation".

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