Press Release
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Surveillance of Member States after financial assistance appropriate, but needs streamlining

The European Commission checks whether euro-area Member States exiting a macroeconomic adjustment programme remain firmly on track, in the interest of the Member States themselves and that of their lenders. The European Court of Auditors has examined the design, implementation and effectiveness of post-programme surveillance for the five Member States (Ireland, Portugal, Spain, Cyprus and Greece) that received financial support after the 2008 financial crisis. The auditors conclude that, while surveillance was an appropriate tool, its efficiency was hampered by unclear objectives and insufficient streamlining and focus on implementation. A review of the processes and of the relevant legislation, in particular to integrate surveillance activities into the European Semester, is thus recommended.

Over the 2010-2013 period, Ireland, Portugal, Spain, Cyprus and Greece received a total of €468.2 billion in financial assistance. EU laws stipulate that Member States exiting a macroeconomic adjustment programme are subject to extra surveillance. Currently, Cyprus, Ireland, Portugal, and Spain are subject to post-programme surveillance (PPS). Greece is subject to enhanced surveillance, because it is considered particularly vulnerable to financial difficulties that are likely to have adverse spillover effects on other Member States in the euro area.

“The post-programme surveillance activities we examined were appropriate, but they need streamlining”, said Alex Brenninkmeijer, the member of the European Court of Auditors responsible for the report. “We think that our work could contribute to the ongoing review of economic governance arrangements in the Economic and Monetary Union. It could also feed into discussions on the design of a possible surveillance mechanism for the repayment of the loans to be provided under the Recovery and Resilience Facility”.

By May 2021, all five Member States had complied with their repayment obligations and had regained access to the market at acceptable interest rates. The Commission’s surveillance helped
to reassure the financial markets, although there is no further evidence that it fostered the implementation of reforms, partially due to a lack of incentives and strong enforcement instruments.

The auditors found that the Commission’s surveillance partially overlaps with the monitoring of repayment capacity done on the same Member States by the European Stability Mechanism. There was also an overlap between a number of the Commission’s activities, namely between PPS and the work done in the context of the European Semester.

Although the Commission’s analyses of a Member State’s situation were generally of good quality, the reports published did not sufficiently focus on Member States’ repayment capacity. Information on loan repayments was often scattered across the reports, and the analyses of the risks to repayment capacity exhibited weaknesses. The auditors noted that the legislation allows little flexibility in implementation: even if the Commission assesses the risk to repayment as low, it cannot suspend its surveillance or reduce the frequency of reporting. Also, for the four Member States under PPS, the Commission did not formally specify which structural reforms it intended to monitor. There were cases where it had monitored reforms implemented by Member States other than those agreed under the macroeconomic adjustment programme.

Under enhanced surveillance, Member States must adopt measures to address vulnerabilities, taking into account country-specific recommendations (CSRs) issued under the European Semester. Similarly, under the recently approved Recovery and Resilience Facility, Member States must explain how their recovery and resilience plans contribute to addressing the challenges identified in their CSRs. The Commission’s surveillance is intended to verify the progress made by the Member State in addressing the challenges they face, in line with the CSRs. However, while the same Commission task force is responsible both for steering the implementation of the Recovery and Resilience Facility and for coordinating the European Semester, it is not in charge of enhanced surveillance. According to the auditors, the Commission should consider incorporating PPS and enhanced surveillance into the European Semester, and agreeing a detailed list of reforms to be followed up with national authorities.

**Background information**

This report complements previous audit work on financial assistance to Member States and EU economic governance (the Six-Pack, the Two-Pack and the European Semester). Special report 18/2021: “Commission’s surveillance of Member States exiting a macroeconomic adjustment programme: an appropriate tool in need of streamlining” is available on the ECA website (eca.europa.eu).

**Press contact**

ECA press office: press@eca.europa.eu