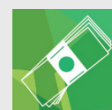


Special Report

Commission's surveillance of Member States exiting a macroeconomic adjustment programme:

an appropriate tool in need of streamlining



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COURT
OF AUDITORS

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Executive summary

I Over the period 2010-2013, five euro area Member States (Ireland, Greece, Spain, Cyprus and Portugal) – that were hit hard by the 2008-2009 financial crisis followed by the sovereign debt crisis – received financial assistance (€468.2 billion) via various mechanisms, partially involving the EU budget. Assistance was provided by the European Financial Stabilisation Mechanism, the European Financial Stability Facility, the European Stabilisation Mechanism, individual Member States (bilateral loans) and the International Monetary Fund.

II In 2013, the EU adopted the Regulation that organises the economic and budgetary surveillance by the Commission of euro area Member States facing serious financial difficulties. It applies to Member States whose difficulties lead to potential adverse spillover effects on other Member States in the euro area and to Member States which request or receive financial assistance. The Regulation also stipulates that Member States exiting a macroeconomic adjustment programme are placed under post-programme surveillance or even enhanced surveillance. The aim is to ensure that the countries concerned remain firmly on track, to the benefit of the Member States themselves and of their lenders.

III In order to inform policymakers and stakeholders on the functioning of the surveillance, we examined whether post-programme surveillance activities were appropriate in terms of design, implementation as well as impact. The result of this 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 regarding the repayment of the loans that will be provided under the Recovery and Resilience Facility, which is meant to assist Member States hit by the COVID-19 pandemic. The audit work covered the period from the moment the Commission started its surveillance of the five Member States concerned until the end of 2020.

IV Our overall conclusion is that the Commission's surveillance of Member States exiting a macroeconomic adjustment programme was appropriate. However, efficiency is hampered as the objectives set by the Regulation are not precise and because the implementation suffers from a certain lack of streamlining and focus.

V In terms of design, we found that as a result of the set-up of the financing vehicles not all being governed by EU law or involving the EU budget, there is overlap in the

surveillance activities between the Commission and the European Stability Mechanism. Moreover, since the legal base defined the objectives of the post-programme surveillance activities in broad terms, in practice there has been overlap with the Commission's work done in the context of the European Semester and with the work done by other EU bodies under the Single Supervisory Mechanism or the Single Resolution Mechanism.

VI Currently the legal base does not provide for flexibility on the timing of the surveillance: even if the Commission assesses the risk to repayment as low, it cannot suspend its surveillance or reduce the frequency of reporting. The Commission is bound to provide bi-annual reports (or quarterly in the case of enhanced surveillance) and consequently it carried out review visits to the Member States at the same frequency without there necessarily being any added value in doing so. Indeed, we found that successive reports were repetitive.

VII The Commission's analyses were of good quality. Nevertheless, we found that the post-programme surveillance reports also included assessment of reforms which were not agreed under the programme and did not sufficiently focus on a Member State's repayment capacity. In particular, information on loan repayments, when provided, was scattered across the reports and the analyses of the risks to repayment capacity showed weaknesses.

VIII Considering the lack of incentives and/or strong enforcement instruments, as well as the many factors playing a role in a Member State's implementation of necessary reforms, there is no further evidence that the Commission's surveillance had significant impact on fostering reform implementation and assuring creditors. Nevertheless, Member States' representatives found surveillance helpful for fostering dialogue and keeping their countries on track.

IX Based on these findings, we recommend that the Commission:

- integrate its various surveillance activities;
- streamline procedures and add flexibility;
- improve interaction with the Member States and other stakeholders.

Introduction

Background

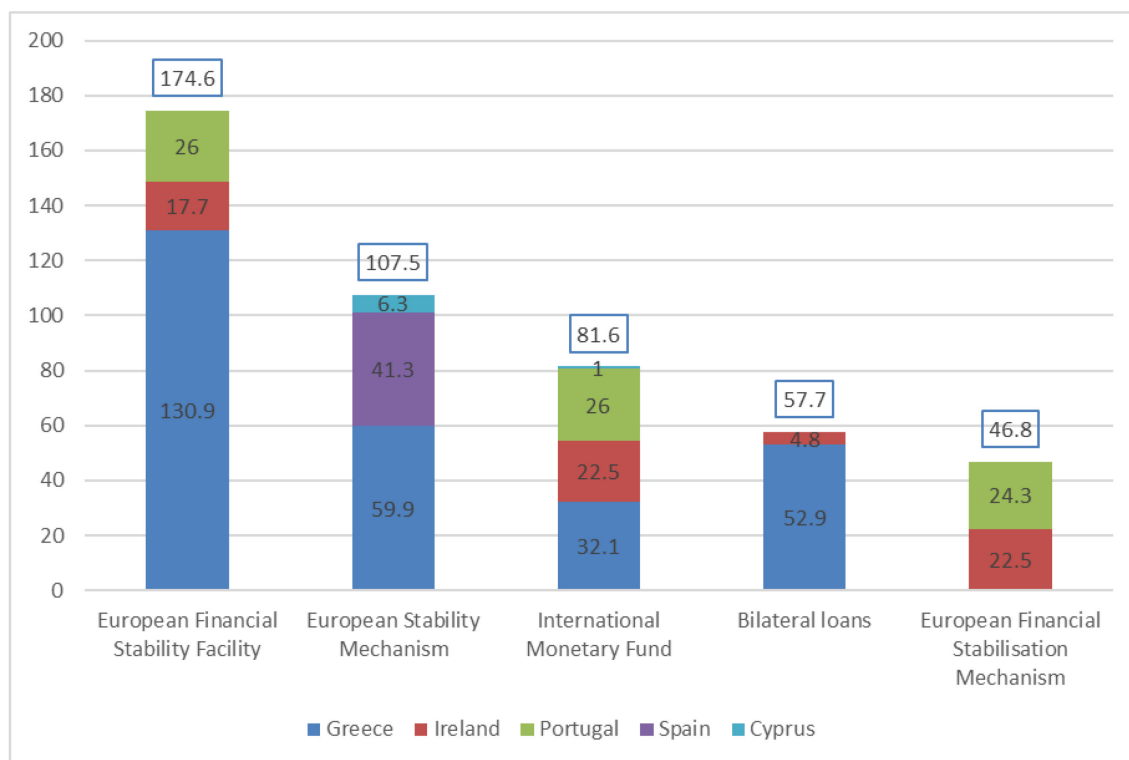
01 The economic and financial crisis that hit Europe in 2008 triggered the European sovereign debt crisis, which swept across EU Member States in two waves. It affected the non-euro area countries in 2008-2009 before spreading to the euro area in 2010. Three non-euro area Member States sought financial assistance from the EU's balance of payments mechanism¹: Hungary in 2008, and Romania and Latvia in 2009.

02 In 2010, Greece was the first euro area Member State to apply for financial assistance, followed by Ireland in 2010, Portugal in 2011, Spain in 2012, and Cyprus in 2013. As the balance of payments mechanism was limited to non-euro area Member States, specific mechanisms were gradually developed to provide financial support to euro area Member States. These mechanisms included bilateral loans such as the Greek Loan Facility agreement, the European Financial Stabilisation Mechanism², the European Financial Stability Facility and the European Stability Mechanism (ESM). The loans provided by those mechanisms were often complemented by loans from the International Monetary Fund (IMF). *Figure 1* shows the financial assistance (in total €468.2 billion) to the five Member States mentioned by funding source.

¹ [Council Regulation](#) (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments, OJ L 53 of 23.2.2002, pp. 1-3.

² [Council Regulation](#) (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism, OJ L 118 of 12.05.2010, pp. 1-4.

**Figure 1 – Financial assistance provided by funding source
(in billion euros)**



Source: ECA, based on programme data from the Commission, the ESM and the IMF.

03 As these various mechanisms were adopted under time pressure, an EU surveillance framework, aiming at assuring lenders (i.e. Member States and taxpayers) on a country's financial stability and thus preventing spillovers, was not put in place from the start. To bridge this gap, the European Parliament and the Council adopted Regulation (EU) No 472/2013³ in May 2013 that organises the surveillance of euro area Member States facing serious difficulties or receiving financial assistance. This Regulation provides for three types of surveillance:

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

³ 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 of 27.05.2013, pp. 1-10.

04 All EU Member States are subject to standard economic and budgetary surveillance under the European Semester. 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 proposes country-specific recommendations for the next 12-18 months to be adopted by the European Council.

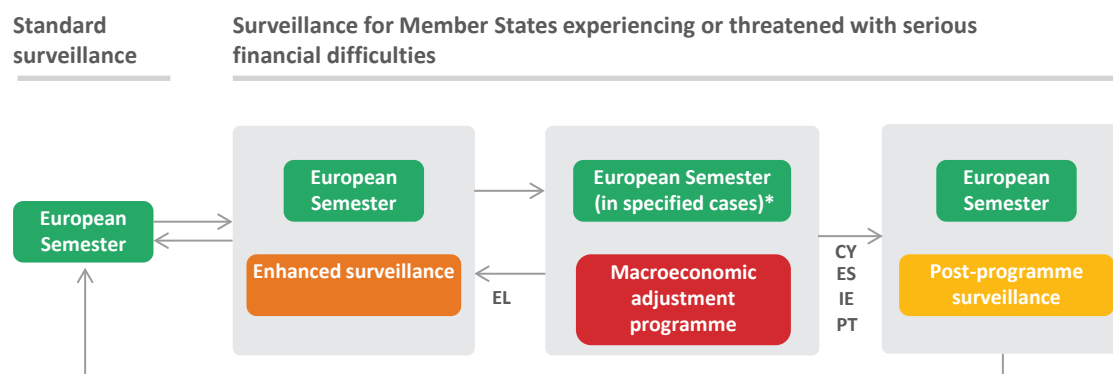
05 Should a Member State experience or be at risk of serious difficulties with regard to its financial stability or to the sustainability of its public finances leading to potential adverse spillover effects on other Member States in the euro area, the Commission may place it under enhanced surveillance, which complements this standard surveillance. Every six months, the Commission decides whether to prolong enhanced surveillance. If the situation has worsened, the Member State can apply for a macroeconomic adjustment programme.

06 Member States under a macroeconomic adjustment programme are usually exempt from monitoring and assessment under the European Semester (as was the case for Ireland, Greece, Cyprus, and Portugal). Instead, a reinforced type of surveillance, programme-based surveillance, applies. However, where the macroeconomic adjustment programme is not fully fledged (i.e. only concerns limited aspects of the economy of a country), the European Semester can still apply to those fields not covered by the programme. One example is Spain, whose programme focused on the financial sector only.

07 After exiting a macroeconomic adjustment programme, the Member State is placed under PPS which is implemented alongside the European Semester. As objective, Regulation (EU) No 472/2013 sets out that the Commission has to assess the economic, fiscal and financial situation of the Member State under PPS and, if needed, to issue a proposal for the Council to recommend the adoption of corrective measures. The Member States that are currently subject to PPS are Cyprus, Ireland, Portugal, and Spain.

08 If by the end of the macroeconomic adjustment programme period the Commission considers that there is a continuous risk to financial stability that is likely to have adverse spillover effects on other Member States in the euro area, it may decide to subject the Member State to enhanced surveillance instead of PPS. This is the case for Greece. [Figure 2](#) summarises the different types of surveillance in the EU.

Figure 2 – Economic and budgetary surveillance of Member States



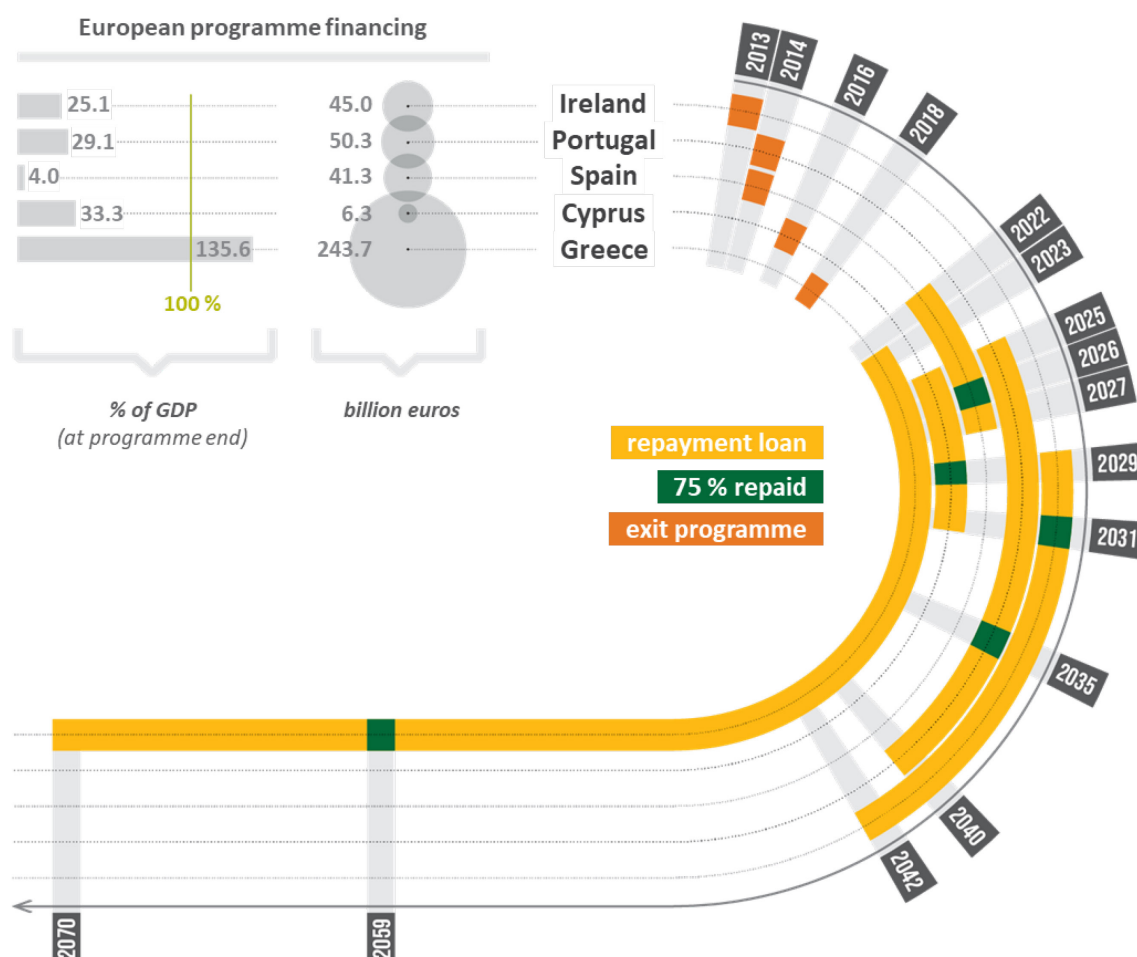
* European Semester applies only when the Adjustment Programme is not a fully fledged programme (e.g. Financial Sector Assistance Programme for Spain)

Legend: colours indicate the intensity of surveillance growing from **GREEN** to **RED**

Source: ECA.

09 The minimum PPS surveillance period following exit from the macroeconomic adjustment programme is the time needed to repay 75 % of the European loans. **Figure 3** shows the amount of European financial assistance received and the repayment schedules for the five Member States concerned. The minimum surveillance period under PPS ranges from 12 years (Spain) to 41 years (Greece). The Council, following a proposal from the Commission, may extend the duration in the event of a persistent risk to financial stability or fiscal sustainability.

Figure 3 – Repayment schedule for the macroeconomic adjustment programmes



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

10 The Commission publishes an overall ex-post evaluation to assess adjustment programmes, usually two to three years after exit from the programme. The purpose is to draw lessons to inform the policy debate and improve future policymaking when designing and implementing adjustment programmes. While the reports for Ireland, Portugal, Spain and Cyprus have been published⁴, the one for Greece is under preparation and expected to be published by the end of 2021.

⁴ Ex Post Evaluation of the Economic Adjustment Programme, Ireland 2010-2013, Institutional Paper 004, July 2015. Ex Post Evaluation of the Financial Sector Assistance Programme, Spain 2012-2014, Institutional Paper 019, January 2016. Ex Post Evaluation of the Economic Adjustment Programme, Portugal 2011-2014, Institutional Paper 040, November 2016. Ex Post Evaluation of the Economic Adjustment Programme, Cyprus 2013-2016, Institutional Paper 114, October 2019.

Roles and responsibilities

11 The **Commission** is responsible for the surveillance of Member States exiting a programme and must communicate its assessments twice a year to the European Parliament, the Economic and Financial Committee (EFC), and the Member States' national parliaments. To this end, the Commission has various resources at its disposal:

- it carries out regular review visits to the Member States under surveillance;
- it can request specific information from the Member States (e.g., on budgetary execution and on developments in their financial system);
- it can request a Member State under enhanced surveillance to carry out stress test exercises or sensitivity analyses to assess the financial sector's resilience;
- it can request Member States to assess their supervisory capacity over the financial sector.

12 The **ESM**, an international financial institution set up by the euro area Member States in 2012, is the main stability support provider to euro area Member States experiencing or at risk of severe financial problems. The European Financial Stability Facility does no longer provide any financial assistance, as this task is now solely performed by the ESM. The ESM monitors Member States to ensure that it receives any repayments due in a timely manner.

13 The **Council**, acting on a proposal from the Commission, may recommend to a Member State under post-programme surveillance to adopt corrective measures. Similarly, it may issue recommendations for corrective measures for Member States under enhanced surveillance, if the Commission concludes that the Member State's financial and economic situation has a significant adverse effect on the financial stability of the euro area or of its Member States.

14 The **European Central Bank (ECB)** and the relevant European Supervisory Authorities, where appropriate, take part in the review visits to the Member State, monitor developments in the financial system, and supervise stress test exercises and sensitivity analyses (see paragraph [11](#)). The ECB (or the relevant Supervisory Authorities where appropriate) also regularly assesses the Member State's supervisory capacities over its financial sector through a specific peer review.

15 The **Member States** concerned are required to provide information and carry out additional actions upon request. For Member States under enhanced surveillance, the national parliament may participate in the economic dialogue with representatives of the Commission, the ECB, and the IMF. The Member State must implement the measures agreed under the macroeconomic adjustment programme and any corrective measures recommended under the surveillance procedure (see paragraph [13](#)).

16 The **IMF**, while not involved in the Commission's surveillance, also carries out its own post-programme monitoring when it has provided funds under a macroeconomic adjustment programme. Visits in this context are usually coordinated with the Commission's review visits.

Audit scope and approach

17 We have already reported on several aspects of economic governance in five special reports published between 2016 and 2020⁵. This report seeks to shed light on the appropriateness of the Commission's post-programme surveillance activities. It can feed into (i) discussions on the design of a possible surveillance mechanism⁶ regarding the loans that will be provided under the Recovery and Resilience Facility⁷ and (ii) the Commission's recently initiated economic governance review (assessment of the effectiveness of the current framework for economic and fiscal surveillance). To that end, we assessed whether:

- (a) the design of the post-programme activities was appropriate;
- (b) the Commission implemented its surveillance activities well;
- (c) the surveillance achieved any impact.

18 For all five Member States that received financial assistance, i.e. Ireland, Greece, Spain, Cyprus and Portugal, we examined the Commission's surveillance activities from their exit from the relevant macroeconomic adjustment programme until the end of 2020.

⁵ Special report 10/2016, "Further improvements needed to ensure effective implementation of the excessive deficit procedure"; special report 03/18, "Audit of the macroeconomic imbalance procedure"; special report 18/2018, "Is the main objective of the preventive arm of the Stability and Growth Pact delivered?"; special report 22/2019, "EU requirements for national budgetary frameworks: need to further strengthen them and to better monitor their application"; and special report 16/2020, "The European Semester – Country Specific Recommendations address important issues but need better implementation". (www.eca.europa.eu).

⁶ Review 6/2020, "Risks, challenges and opportunities in the EU's economic policy response to the COVID-19 crisis", paragraph 88. (www.eca.europa.eu).

⁷ Regulation (EU) No 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility; OJ L 57 of 18.2.2021, pp. 17-75.

19 For the purposes of the audit, we examined documentation available at the Commission. We interviewed staff from the Commission, the relevant national authorities in all five Member States (in particular, from the Ministries of Finance and the central banks) as well as staff from the ESM and the IMF. We used an artificial intelligence tool to compare PPS and European Semester reports, and to assess the extent of repetitions among them. Lastly, we conducted a survey among the 27 Treasury Members of the EFC (response rate: 85 %) with the objective of collecting insights and opinions on the design of this surveillance, its implementation by the Commission and, ultimately, its effectiveness.

Observations

The design led to overlaps at European level and lacked clarity and flexibility

20 The architecture of the macroeconomic adjustment programmes is such that it involves several stakeholders (see paragraphs [02](#) and [11-16](#)), all of which have an interest in keeping the Member State on track, to the benefit of the Member State itself and of its lenders, by protecting its capacity to repay.

21 To assess whether the post-programme surveillance activities were appropriately designed, we examined whether:

- (a) The monitoring activities of the ESM were taken into account in the design of EU surveillance;
- (b) the objectives of the surveillance procedure were clear and provisions for implementation were appropriate.

Overlap between the Commission's and ESM's activities

22 The EU budget is not the main provider of funds to the five Member States concerned. Of the total financial assistance (€468.2 billion), the IMF provided €81.6 billion and Member States provided €386.6 billion under various mechanisms as described in paragraph [02](#) and [Figure 1](#).

23 The EU budget is only involved in the assistance provided under the European Financial Stabilisation Mechanism, which allows the Commission to borrow on the financial markets on behalf of the Union under an implicit EU budget guarantee so as to be able to provide financial assistance. So far, the European Financial Stabilisation Mechanism has provided 12.1 % of the total European assistance (i.e. €46.8 billion out of €386.6 billion) and only to two of the five countries, namely Ireland and Portugal. However, for the majority of the bilateral loans provided by euro area Member States (i.e. the Greek Loan Facility, amounting to €52.9 billion) the Commission was entrusted with the task of coordinating and administering the pooled bilateral loans, even though the EU budget is not involved.

24 The bulk of European financial assistance (73 %) was provided by the ESM (€107.5 billion) and its predecessor, the European Financial Stability Facility, (€174.6 billion). These are intergovernmental financing mechanisms, not supported by the EU budget. The ESM has, as specified in the ESM Treaty, created an Early Warning System to detect loan repayment risks and allow for corrective action. This system also applies to loans provided by the European Financial Stability Facility. It is in place from the start of the macroeconomic adjustment programme and lasts until the loans are repaid in full.

25 Post-programme surveillance activities apply to all Member States exiting a macroeconomic adjustment programme, independently of whether the funding involved the EU budget or not. As a result of the different funding sources and legal frameworks involved, there is a clear, albeit partial, overlap between the Commission's and the ESM's monitoring activities:

- the ESM monitoring partially covers the loans that are under the Commission's surveillance: unlike the ESM, the Commission covers bilateral loans and loans by the European Financial Stabilisation Mechanism;
- the Commission partially covers the same analysis period as the ESM: the ESM's monitoring of repayment risks lasts longer, until full repayment.

26 In April 2018, the Commission and the ESM signed a Memorandum of Understanding (MoU), committing them to (i) combining their visits to Member States to prevent duplication and reduce the burden on the Member State and (ii) making arrangements to exchange information and allow reciprocal data access. We found that the Commission shares the information collected during the visits with the ESM. The ESM, which depends on input from the Commission due to its role provided by the EU Treaties, uses the information collected to carry out its own assessment of the Member State's repayment capacity. While the Commission's assessments are publicly available, the ESM's are not.

27 The Commission did not systematically ask to receive a copy of the ESM's reports, in spite of the Memorandum of Understanding. We note that, as a result of our audit work, the Commission now systematically asks for and receives the ESM reports.

Objectives in the Regulation are vague and some implementation provisions too rigid

28 We analysed the appropriateness of the provisions of Regulation (EU) No 472/2013 with regard to the objectives, as well as with regard to the implementation modalities, i.e. duration, reporting and enforcement instruments.

29 The Regulation defined PPS objectives in broad terms (see paragraph 07). Therefore, in its internal Vademecum on euro area macroeconomic adjustment programmes, the Commission expanded further on the scope: it consists in assessing:

- compliance with commitments or policy measures agreed under the programme and the policy recommendations covered by the Country Specific Recommendations (CSRs);
- the Member State's economic, fiscal and financial situation and, in this context, whether the Member State is carrying out unsound policies that could undermine the situation;
- the Member State's capacity to service its debt.

30 Regarding the first objective, assessing the implementation of policy measures agreed under the programme which continue after the programme deadline is a relevant task. It should ensure that the commitments are fulfilled and should prevent reversal of reforms implemented under the programme. This assessment is expected to be phased out over time.

31 However, assessing the implementation of CSRs under PPS exceeds the provisions of the Regulation and overlaps with the Commission's activities under the European Semester, where the conclusion of this assessment is part of the annual Country Reports. Moreover, within the Commission the responsibilities are split: while DG ECFIN is responsible for PPS, the Secretariat-General is responsible for the European Semester.

32 The second objective is the only one explicitly mentioned in the Regulation. It entails a risk of overlap with the European Semester, under which each year the Commission already produces a thorough analysis of each Member State's macroeconomic situation, structural reforms and budgetary plans, and issues CSRs. Moreover, within the European Semester, the macroeconomic imbalance procedure is

already in place to prevent and correct such imbalances by promoting the implementation of sound policies.

33 Considering the assessment of reforms done under the European Semester, we would expect the third objective of assessing the debt service capacity of a Member State to be the centrepiece of PPS, yet this is not explicitly mentioned in the Regulation. We noted that a Commission publication⁸ states that “this surveillance arrangement aims at ensuring that the beneficiary remains on the right fiscal track, thus protecting its capacity to repay its debt”. Similarly, the Council’s website providing explanations on the “financial assistance for euro area member states”⁹ indicates that the aim is “to assess whether the member state that received financial assistance is continuing to implement sound policies and whether there is any risk that it may not be able to repay its loans”.

34 Lastly, 22 of the 23 EFC members who responded to our survey stated that the objective of this surveillance was “well defined”. However, when asked to indicate its actual purpose, only eight (including just two of the five Member States under post-programme surveillance) explicitly mentioned the assessment of repayment capacity and only three mentioned the follow-up of reforms committed to under the programme. The majority of the objectives indicated by respondents were those covered by other forms of surveillance (i.e. to promote sound economic policy, fiscal and financial sustainability, or to enhance the implementation of structural reforms).

35 Enhanced surveillance (see paragraph 05) was conceived as a pre-emptive framework for Member States at risk of requiring financial assistance. It has not yet been activated for this purpose. Thus far, it has been used as a post-programme monitoring tool for Greece, on the grounds that although the Member State has exited its macroeconomic adjustment programme, it still poses a risk to financial stability with potential spillovers to other euro area Member States (see paragraph 08).

⁸ European Commission, “The two-pack on economic governance: Establishing an EU framework for dealing with threats to financial stability in euro area member states”, Occasional Papers 147, May 2013.

⁹ <https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/>

36 As Member States under enhanced surveillance are required to adopt measures to address the sources or potential sources of difficulty, and taking into account the CSRs issued under the European Semester, the primary purpose of enhanced surveillance is to verify the progress made by the Member State in implementing those measures. Enhanced surveillance has therefore a broader scope than the PPS. Under the recently approved Recovery and Resilience Facility, Member States also have to explain how their recovery and resilience plans contribute to addressing the challenges identified in their CSRs. While a Commission task force¹⁰ is responsible for steering the implementation of the Recovery and Resilience Facility and for coordinating the European Semester, it is not tasked with carrying out the enhanced surveillance.

37 As enhanced surveillance was not created as a post-programme device, the Commission did not provide any guidance regarding this use. The Regulation does not contain any provisions regarding repayment capacity, and the Commission Implementing Decision¹¹ on the activation of enhanced surveillance for Greece does not mention repayment capacity as an objective. However, we note that the enhanced surveillance reports for Greece do contain a section on the repayment capacity.

38 While the objective of the PPS is not clearly stated in the Regulation, the period of surveillance is clear, i.e. until at least 75 % of the financial assistance has been repaid (see paragraph 09). However, this threshold of 75 % does not necessarily capture the risk for the creditor since it does not reflect either the absolute amount of the loans or the size of the loans relative to the gross domestic product (GDP) of the Member State concerned.

39 [Table 1](#) illustrates this point. It lists the amounts the five Member States currently under surveillance will still have left to repay once they reach the 75 % threshold in billion euros and as a percentage of GDP. As we cannot predict the level of GDP for each Member State when the 75 % threshold is reached, we have used the 2019 GDP for the sake of simplicity.

¹⁰ Recovery and Resilience Task Force established on 16 August 2020 within the European Commission's Secretariat-General.

¹¹ [Commission Implementing Decision](#) (EU) 2018/1192 of 11.7.2018 on the activation of enhanced surveillance for Greece, OJ L211 of 22.08.2018, pp. 1-4.

Table 1 –Loan amounts which remain to be repaid once the 75 % threshold is reached (*billion euros and percentage of 2019 GDP*)

Member State	Remaining amount (billion euros)	% of 2019 GDP
Ireland	11.3	3.2
Portugal	12.6	5.9
Spain	10.3	0.8
Cyprus	1.6	7.1
Greece	60.9	33.2

Source: ECA, based on programme data from the Commission and AMECO database.

40 We observe that there is considerable variation in both (i) the risk to the creditor's balance sheet stemming from the credit outstanding (ranging from €1.6 to €60.9 billion) and (ii) the corresponding percentage of GDP. The credit outstanding for Spain represents an almost insignificant percentage of GDP, but for Greece this represents around one third of GDP. In other words, the 75 % threshold could lead to ending PPS too early for some Member States while maintaining it for too long for others that pose a low risk to creditors.

41 The Regulation has an asymmetric approach when dealing with these two risks. It allows the duration of the PPS to be extended, but there is no provision for putting the PPS on hold before this threshold is reached, even when the risk regarding the repayment for the Member State concerned is insignificant.

42 As mentioned in paragraph [05](#), the period of enhanced surveillance ceases when the Commission decides so, based on its assessment. While one would expect that a Member State exiting enhanced surveillance would be placed under PPS until it had repaid at least 75 % of the financial assistance, the Regulation does not explicitly state so.

43 The Regulation specifies a required frequency of reporting under PPS of twice a year (see paragraph 11). We understand that (i) at the time of drafting the Regulation, the IMF also followed a biannual rhythm for its post-programme monitoring, and (ii) at the start of the PPS for a country newly exiting a programme, this frequency may be justified to allow for in-year correction if necessary. However, the need for such steady follow-up is expected to reduce over time, in particular when countries are back on track. However, the Regulation does not provide for any flexibility in the frequency.

44 With regard to the enforcement instruments of the Commission, as mentioned in paragraph 13, it can only propose that the Council address recommendations at Member States. However, these recommendations have no binding force¹². Nevertheless, peer pressure can play a role and can result either from communications to the EFC or from making the recommendations public, which the Council may do at the Commission's proposal. Respondents to our survey generally confirmed that the communication to the EFC adds to peer pressure "to a great extent" (17 %) or "to some extent" (65 %).

Surveillance as implemented under the current Regulation suffered from a certain lack of streamlining and focus

45 The Commission's activities under PPS, which include on-the-spot visits and reporting on the results of its assessments, started in 2014. Enhanced surveillance started in 2018. By comparison, the surveillance under the European Semester started in 2010. The Commission carried out in parallel these surveillance activities (see [Figure 2](#)).

46 We examined whether:

- (a) the Commission's implementation procedures were appropriate;
- (b) the Commission's analysis provided added value compared to assessments carried out in the context of the European Semester;
- (c) the Commission's analysis had the right focus.

¹² Article 288 TFEU.

The Commission streamlined the process, but frequent on-the-spot visits offer limited added value

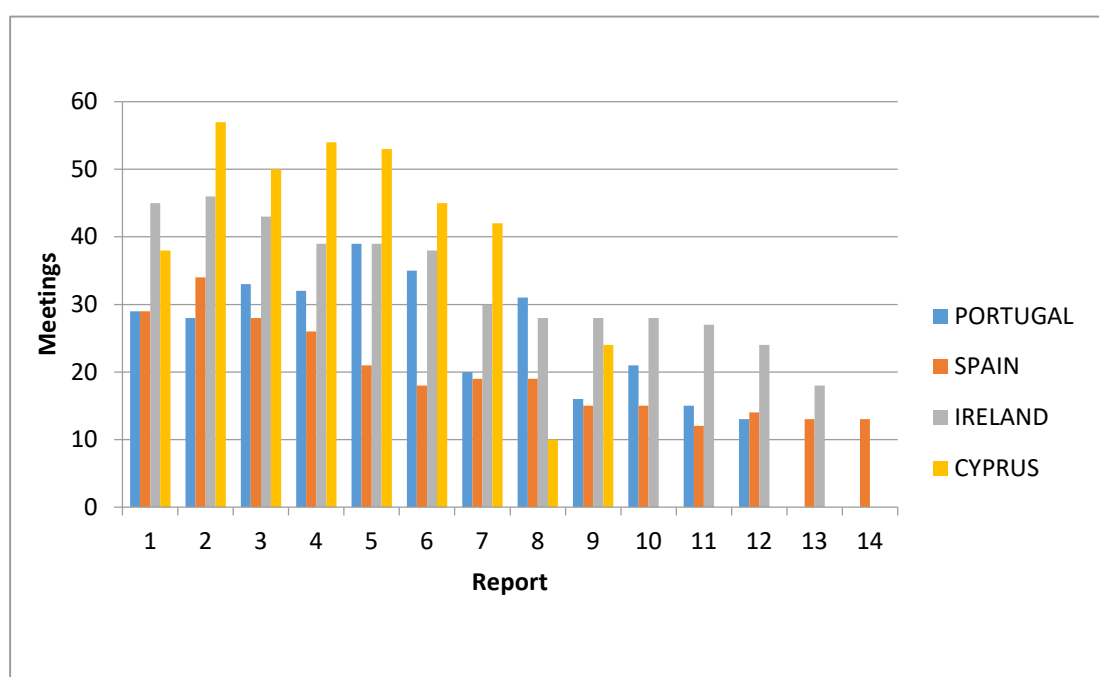
47 We examined whether the Commission requested information appropriate for the purpose and effectively organised its on-the-spot visits for the post-programme surveillance activities, also considering the visits carried out in the context of the European Semester.

48 We interviewed representatives of the national ministries of finance, who considered that the Commission made appropriate use of its right to request information. Being under enhanced surveillance, however, Greece was subject to more demanding requests. Around 50 % of the information was reportedly requested at short notice.

49 We found that for three of the five Member States concerned, the Commission and the national authorities signed a formal agreement on data provision covering the type and timing of information to submit. Such an agreement improves the process by increasing the predictability of information to be provided and by facilitating Member States' planning and collection of information.

50 The representatives of the national authorities we interviewed found that PPS visits to their countries were well organized and announced with appropriate notice. They also considered that overall there was a good cooperation among stakeholders, despite occasional coordination problems among Commission General Directorates.

51 Two years into PPS surveillance the Commission streamlined its visits, reduced the number of entities visited and the number of agenda items addressed by focusing on topics more specifically related to PPS. [Figure 4](#) reflects the declining trend in the number of meetings. This is mainly the result of organising PPS visits separately (i) from standard European Semester visits, which occurred gradually in some Member States and (ii) from specific monitoring visits under the macroeconomic imbalance procedure (since 2019).

Figure 4 – Trend in the number of meetings

Source: ECA.

52 Even if not specified by the Regulation, the frequency of the PPS visits was aligned with the frequency of the communications, i.e. twice a year (see paragraph 43). National authority representatives in three of the four Member States under PPS stated that no substantial progress in structural reform implementation can be made over a six-month period. They also said that not many short-term factors influence Member States' long-term repayment capacity. The Commission acknowledges that most measures recommended in the CSRs require 12 to 18 months to be implemented with some structural reforms taking even more time. For this reason, in 2017, the Commission also introduced a multiannual assessment for CSR implementation¹³.

53 We found that over time the successive PPS reports became repetitive (see paragraph 57). We note that the IMF identified a similar issue in its own monitoring and in 2016 decided to carry out one visit a year and publish one report per year instead of two.

¹³ Special report 16/2020, "The European Semester – Country Specific Recommendations address important issues but need better implementation" (www.eca.europa.eu), paragraphs 36 and 51.

54 Repetitiveness is an even bigger issue for enhanced surveillance, where visits are also aligned with the frequency of the communications and take place four times a year. This high frequency overburdens the national authorities (see paragraph 48) and the Commission alike.

Commission analysis is good but overlaps with European Semester work

55 We examined the added value of the Commission's successive post-programme surveillance assessments in comparison with its work under the European Semester.

56 We found the quality of the analysis provided in PPS/enhanced surveillance reports to be good. This is in line with the conclusion we drew in our 2018 special report on the Commission's assessments in the context of the macroeconomic imbalance procedure¹⁴. The stakeholders we interviewed confirmed this positive assessment. Finally, our survey also revealed that 74 % of respondents regard the quality of the Commission's analysis as "high", while 26 % ranked it "average".

57 Nevertheless, as mentioned in paragraph 53, the successive PPS reports are repetitive. Our analysis shows that, while only some data is updated, the update does not change either the substance of the analysis or its conclusion. Based on the artificial intelligence tool we developed, we searched for similarities in the documents. We found that for certain sections up to 78 % of the information reported in a PPS report was already present in the previous PPS report. This percentage was nearly halved when comparing two reports published one year apart. Our conclusion is also corroborated by some stakeholders we interviewed.

58 With regard to which structural reforms to monitor, we found that for the four Member States under PPS, the Commission did not formally specify the structural reforms to be monitored. For Greece, under enhanced surveillance, the Commission Implementing Decision was more precise. It identified the specific reforms and the relevant milestones to be monitored.

59 We noted that the assessment of progress in implementing the structural reforms usually covered fiscal structural reforms, financial sector reforms (mainly concerning the banking sector) and other reforms to boost economic growth or

¹⁴ Special report 03/2018, "The Macroeconomic Imbalance Procedure", paragraphs 78 and 79. (www.eca.europa.eu).

address macroeconomic imbalances. The assessment took stock of the degree of implementation and called for action when progress was slow.

60 We found that the PPS reports included assessments of structural reforms that were neither outstanding from the macroeconomic adjustment programme nor backed by a robust legal base, such as a formal commitment by the Member State at programme exit or later, or a Council recommendation (see paragraph 13).

Box 1 shows some examples.

Box 1

Examples of structural reforms not outstanding from the macroeconomic adjustment programme, yet monitored by the Commission under PPS

Portugal	Spending review (Summer 2016 PPS report) Budgetary Framework Law (Autumn 2014 PPS report)
Cyprus	ESTIA scheme, i.e. State-subsidized scheme to facilitate reimbursement of households' distressed mortgages (Autumn 2018 PPS report)
Spain	Update of macro-prudential toolkit (Autumn 2015 PPS report) and set-up of macro-prudential authority (Autumn 2018 PPS report) Implementation of resolution plans and targets for minimum requirements for own funds and eligible liabilities for banks (Autumn 2018 PPS report)
Ireland	Action plan for housing and homelessness (Spring 2016 PPS report)

Source: ECA.

61 We also found that some structural reforms not outstanding from the macroeconomic adjustment programmes, but nevertheless assessed under PPS, were linked to issues to be addressed under the programme. However, the impact these reforms could have on the repayment capacity was not obvious and the PPS reports did not explain it.

62 We compared the content of the PPS reports with the content of the reports under the European Semester (mainly Country Reports, assessment of Stability Plans or Draft Budgetary Plans, and European Economic Forecasts) and found that there was some overlap in the information provided (see [Table 2](#)) and in the assessments (see [Annex I](#)).

Table 2 – Overlap between information in PPS and European Semester reports

Member State	PPS report	Section	European Semester reports	% of overlap between the reports
Portugal	Autumn 2016	Policy issues	2017 Country Report	43
Portugal	Autumn 2018	Economic developments	2019 Country Report	49
Portugal	Summer 2019	Public Finances	2019 SP SWD	47
Cyprus	Spring 2017	Macroeconomic outlook	2017 Spring European Economic Forecast	23
Cyprus	Spring 2019	Budgetary outlook	2019 Country Report	34
Cyprus	Spring 2020	Public Finances	2020 Country Report	26
Ireland	Autumn 2018	Sovereign financing issues	2018 Country Report	30
Ireland	Spring 2018	Recent economic developments	2018 Spring European Economic Forecast	19
Spain	Autumn 2018	Macroeconomic developments	2018 Country Report	36
Spain	Spring 2019	Macroeconomic developments	2019 Country Report	49

Source: ECA, Artificial Intelligence tool.

63 We nevertheless acknowledge that there was no overlap between PPS and the European Semester with regard to the assessment of reforms in Spain. Indeed, as Spain benefitted from a sectoral adjustment programme focusing on its financial sector only (see paragraph 06), it has always been under regular European Semester surveillance. The division of tasks between surveillance under the European Semester and programme-based surveillance established during the programme period also continued afterwards. Consequently, the PPS reports for Spain clearly focus on financial sector developments and reforms and are distinct from the Country Reports under the European Semester.

64 Concerning the assessment of financial stability and the relevant reforms, we found that the approach differed across the four Member States under PPS. Indeed, for Ireland the Commission's assessment of the largest domestic banks was phased out in 2015, soon after the Single Supervisory Mechanism was set up, while it is still ongoing for Cyprus and Portugal. However, any detailed assessment of individual banks overlaps with (i) the supervision carried out by the European Central Bank and national supervisors in the context of the Single Supervisory Mechanism as well as (ii) the work carried out by the European Banking Authority, which is mandated to assess risks and vulnerabilities in the EU banking sector.

65 Moreover, the Commission monitored resolution planning, and banks' progression towards meeting the targets for the minimum requirement for own funds and eligible liabilities (MREL). However, this monitoring overlaps with the one done by the relevant resolution authority and the European Banking Authority. The resolution authorities (the Single Resolution Board or national resolution authorities, depending on the significance of the banks) are responsible for preparing resolution plans and for setting the level of the minimum requirement for own funds and eligible liabilities. The European Banking Authority is responsible for monitoring the quality of own funds and eligible liabilities instruments issued by banks. In this regard, we note that Regulation (EU) No 472/2013 has not been revised to take into account the developments in the EU legal framework, such as the set-up of the Single Supervisory Mechanism and the Single Resolution Mechanism.

66 Until 2018, the Commission's assessment of reforms took up on average 40 % of a PPS report, but following a streamlining process implemented from 2019 onwards it's length decreased by half. This was mainly due to a reduction in the focus on structural reforms/policy issues and eliminating a section devoted to the specific monitoring in the context of the macroeconomic imbalance procedure. As a consequence, the length of the PPS reports has been cut by over 30 %. The national authorities consider this a positive development. However, even though streamlined, PPS reports still contained overlaps with the reports produced under the European Semester.

67 Our analysis showed that for Greece, under enhanced surveillance, Country Reports and enhanced surveillance reports were complementary rather than overlapping. The Country Report covered a broader set of areas than the enhanced surveillance report. It also reported on issues that belong to the enhanced surveillance remit, but merely summarised these issues, which the enhanced surveillance report then explored in greater depth.

The surveillance reports' focus on repayment capacity was limited

68 As mentioned in paragraph 33, to distinguish PPS from the European Semester, we expected PPS to focus on assessing the risks to a Member States' repayment capacity. However, the focus on repayment capacity was limited as illustrated by the lack of structured disclosure of key information regarding the loans to be repaid. The repayment capacity sections in the various reports were quite short, or even not existing in the case of Spain, and did not contain information regarding the outstanding amount of loans to be repaid, both in absolute terms and as a percentage of GDP. Neither did they provide any information concerning the time schedule of the repayments of principal, interests and fees. Some of this information, when provided, was rather scattered across the reports and/or provided in the form of a chart rather than numerical tables.

69 By comparison, the IMF publishes a table in each post-programme monitoring report providing comprehensive information regarding the IMF loans granted. The same applies to the Early Warning System reports by the ESM.

70 Moreover, the repayment capacity sections were not sufficiently risk-oriented but remained largely descriptive. They rightly acknowledged the access to market of the Member State concerned by mentioning its last debt issuances and describing the evolution of its bond yield and spread versus German bond and noted any early loan repayments. They also commented on the evolution of the sovereign credit rating and in some cases, mentioned the Member State's financial needs and cash buffers.

71 With regard to the risk analysis, we noted the following weaknesses: some risks were not addressed and when a risk analysis, tailored to Member States, was provided, it did not quantify the impact of shocks and assess how the repayment capacity would be affected. In particular, we found that:

- the Commission did consider some exogenous macroeconomic shocks (for example, Brexit and COVID-19) that could specifically affect Member State economies. However, the Commission has not yet analysed the main risks to the medium-term repayment capacity of Member States under PPS arising from these shocks;
- not all risks that might adversely affect repayment capacity were considered. For example, the Commission regarded the geopolitical tensions between Turkey on the one hand and Greece and Cyprus on the other as of lower significance compared to other, more sizeable and more likely risks. Therefore, the

Commission's risk analysis did not factor in the relevant potential economic fallout that could affect (i) the tourism sector in Cyprus and Greece or (ii) the energy sector in Cyprus. Those sectors are an important source of economic growth and hence contribute significantly to debt sustainability.

72 The key question when assessing the medium and long-term repayment capacity for euro area Member States concerns the ability of the Member State to access the market at a reasonable rate to refinance the maturing liabilities from its creditors (ESM, IMF, etc.). In other words, the assessment should show whether the level and trajectory of the Member State debt-to-GDP ratio will ensure market access in the future.

73 Debt sustainability analysis is a model-based tool used to provide an answer to this question. It consists of estimating the potential evolution of the debt-to-GDP ratio under different assumptions and risk scenarios. It typically contains a baseline scenario, and sensitivity test scenarios. The latter are based on positive or negative shocks affecting determinants of debt dynamics such as primary balance, interest rate, GDP growth and inflation. The debt sustainability analysis can also consider additional risk factors to complement its model-based results, in order to obtain a more balanced and/or more specific country assessment.

74 Since 2009, the Commission has a very comprehensive fiscal sustainability assessment framework, which includes a deep and extensive debt sustainability analysis for all EU Member States. It is published every year in January (every three years in its Fiscal Sustainability Report and for the two years in between in the Debt Sustainability Monitor). In addition to the sensitivity analysis around the baseline scenario, the analysis considers alternative fiscal scenarios¹⁵. It also contains a rich and deep risk analysis capturing short, medium and long term risks potentially arising from: the structure of public debt (public debt by maturity, holder, currency of denomination); the Net International Investment Position; and the government's contingent liabilities, in particular regarding those related to the support of financial institutions.

¹⁵ See Box 1.1 (p. 38 – 41) of the Fiscal Sustainability Report 2018, Volume 1, Institutional Paper 094, January 2019.

75 With the exception of Spain¹⁶, the PPS reports included an annex with a debt sustainability analysis based on the January analysis mentioned above. It was usually limited to the sensitivity analysis around the baseline scenario and, in some cases considered alternative fiscal scenarios. We nevertheless acknowledge that the Commission, in its Fiscal Sustainability Report 2018, published in January 2019, has moved towards providing a more tailor-made and country-specific sustainability analysis in the case of Greece. This revised sustainability analysis was based on the elements provided in the enhanced surveillance report published in November 2018.

76 So far, the Commission concluded that repayment capacity was sound for all the Member States in the short-term. The length of the PPS period makes it difficult to quantify the impact of shocks on repayment capacity, even by relying on a comprehensive debt sustainability analysis, complemented by a robust and country-specific risk analysis. Indeed, the repayment periods exceed the timeframe of the current Commission forecast (two years ahead) and Member States' electoral cycles (four to five years), as well as the Commission's long-term assessment of debt sustainability (generally 10 years).

77 Consequently, the conclusions regarding the medium and long-term repayment capacity, if any, were of a general nature: for Portugal and Cyprus it mentioned that the medium and long-term repayment capacity was sensitive to macroeconomic shocks, risks stemming from the financial sector and deterioration in fiscal performance. Finally, to maintain their repayment capacity in the medium and long term, the Commission made an always valid recommendation, namely that Member States ensure fiscal discipline and make progress in implementing structural reforms that improve the long-term growth potential. However, the link between the medium and long-term repayment capacity assessment and the analysis provided in other sections and annexes of the report was not obvious.

¹⁶ Only the first PPS report for Spain contained a long-term projection of general government debt dynamics.

Member States found the Commission's surveillance helpful but there is no further evidence that it had impact

78 We assessed whether the Commission's surveillance procedure (i) had an impact on the continuation of the reform process in the Member States concerned and (ii) provided assurance to creditors on the Member States' repayment capacity.

Surveillance fostered dialogue but certain reforms Member States implemented showed insufficient progress

79 We interviewed representatives of the national authorities in the Member States concerned. They confirmed that PPS was helpful for fostering dialogue with the Commission, discussing risks, challenging thinking, providing alternative perspectives, and forging a common understanding of the situation. Moreover, they consider that PPS was helpful in keeping their countries on track, for example by (i) preventing the reversal of reforms; (ii) helping the government to promote reforms with its parliament as these reforms are backed by international institutions; (iii) feeding the debate before the Eurogroup and the EFC; and (iv) promoting the sharing of good practice.

80 Despite this positive assessment, for the four Member States under PPS, our analysis showed that for certain reforms the Commission's assessment was the same from one report to the next, i.e. not showing much progress in reform implementation (see examples in [Annex II](#)). While on the one hand this is partially due to the fact that implementing reforms takes time, as mentioned earlier (see paragraph [52](#)), on the other hand it indicates that PPS has a limited impact on fostering reform implementation. The latter is due to the emergence of reform fatigue and to the fact that after regaining access to market financing at acceptable rates, the Member States have less incentives to implement reforms recommended by the Commission.

81 In 2020, the ECA pointed out that national ownership is needed for successful implementation¹⁷, and winning buy-in from national authorities is a difficult process that requires a solid legal base and long negotiations. Even more so in the absence of a financial incentive, as is generally the case on exit from a macroeconomic adjustment programme. Moreover, to date the Commission has not proposed to the Council to recommend to a Member State to adopt corrective measures (paragraph **13**).

82 With regard to enhanced surveillance as a monitoring tool, it is still early to assess its effectiveness. The procedure has been in use for a relatively short period (since July 2018) and only for one Member State. Moreover, many reforms have a time horizon for the implementation that goes beyond the time span of the audit scope. Finally, the COVID-19 pandemic and ensuing lockdowns have caused additional delays in the implementation of reforms, as reported by the Commission.

83 We found however that, despite enhanced surveillance, the implementation of reform measures ran into delays. This was also true for measures that were not particularly complex and had short deadlines that expired before the COVID-19 pandemic. Moreover, since September 2020 (7th Enhanced Surveillance report) the reports do no longer refer to the initially agreed deadlines for each commitment, thus preventing the reader from having an overall picture of delays incurred.

84 Enhanced surveillance reports provided an accurate account of the state of implementation and the delays occurring on the ground, as well as of actions taken by national authorities, mostly consisting in the postponement of deadlines. However, the Commission did not recommend any specific action to redress the situation or prevent it from deteriorating further. **Box 2** provides one example. Additional examples are provided in **Annex III**. In spite of these delays, the overall assessment of the Commission on the action by the Member State is positive.

¹⁷ Special report 16/2020, “The European Semester – Country Specific Recommendations address important issues but need better implementation”, paragraph 13 and Box 2 (www.eca.europa.eu).

Box 2

One example of significant delay in the implementation of a measure

Tax administration: Greece committed to increasing the staff of the Independent Authority of Public Revenue to 12 000 by the end of 2018 and to 12 500 by the end of 2019, with an ultimate target of 13 322 employees by mid-2021.

This commitment was already less ambitious than the hiring plan disclosed in the fourth review of the Compliance Report on the ESM support programme for Greece of July 2018, under which the target of 13 322 employees was to be achieved by the end of 2019.

At the end of the third quarter of 2020 the staffing level had only reached 11 947 employees, i.e. even below the level due to be met by the end of 2018. Moreover, the Commission reports that *“the authorities have adopted legal provisions that have resulted in staff from the Independent Authority being transferred to other bodies, thus making the achievement of the set staffing targets even more difficult”*¹⁸.

Source: ECA.

Member States compliant with their repayment obligations but contribution of surveillance to assuring creditors difficult to assess

85 By May 2021, all Member States under PPS and enhanced surveillance had regained access to financial markets at acceptable interest rates. Moreover, all Member States were compliant with their repayment obligations and paid part of their repayments early, in particular to the IMF, since its loans are more expensive than those provided by European support. Spain, which did not receive IMF financial support, already made nine voluntary repayments representing 43 % of the total amount drawn under the programme.

¹⁸ Enhanced Surveillance Report Greece, September 2020, Institutional Paper 134, September 2020, page 7.

86 Despite this positive change, we acknowledge that it is not possible to conclude on the degree of influence of the surveillance or disentangle it from the impact of other factors. Indeed, positive developments in the economy, particularly supportive monetary policy and the positive outcome of budgetary performance play a key role in providing assurance to the markets. Moreover, early loan repayments possibly using own resources (at least partially) are also regarded as an effective means of restoring confidence.

87 In addition, for advanced markets, investors can draw assurance from a wide range of independent analyses, such as reports by Credit Rating Agencies, think tanks and other international institutions. Both PPS and enhanced surveillance reports are complementary to these publications. However, some stakeholders stated that these reports do not currently have a big impact in the media and among the general public. The impact is lower than other documents published in the context of the European Semester (Country Reports, CSRs) and has even declined over time as the Member States managed to improve their situation in terms of access to market finance. Nevertheless, while media visibility is limited, PPS reports have a specific audience: creditors, investors, rating agencies and market participants.

Conclusions and recommendations

88 Our overall conclusion is that the efficiency of the surveillance was hampered as the objectives set by the Regulation are not precise and because the implementation suffered from a certain lack of streamlining and focus. Furthermore, while the Commission's surveillance, together with other factors, has played its part in reassuring the markets, there is no further evidence that it fostered reform implementation. This is partially due to a lack of incentives and strong enforcement instruments. Nevertheless, by May 2021, the five Member States concerned had complied with their repayment obligations and had regained access to the market at acceptable interest rates.

89 There is a lack of precision in the relevant Regulation regarding the specific objective of post-programme surveillance, which was also perceived by representatives of the Member States we surveyed. The Regulation only defines the objective of the surveillance in broad terms. The Commission elaborated on the objectives in its internal Vademecum, specifying also the assessment of the implementation of policy measures agreed under the programme and the assessment of Member State repayment capacity as objectives (see paragraphs [29-34](#)). In practice, as a result of the broadly defined objective, we found overlaps between the activities carried out under PPS and under the European Semester (both assessing reforms undertaken by a Member State).

90 There was also overlap between post-programme surveillance reports and European Semester publications, in particular the Country Reports (see paragraphs [55-63](#)). While the most distinctive feature would be the assessment of the repayment capacity of the Member State concerned, the PPS reports did not particularly emphasise this aspect (see paragraphs [68-77](#)).

91 The Commission has recently made efforts to streamline the post-programme surveillance reports, reducing their length by around 30 %. However, we found that even in these streamlined reports there was overlap with the reports produced under the European Semester (see paragraph [66](#)).

92 Under enhanced surveillance Member States are required to adopt measures to address the sources or potential sources of difficulty taking into account the country specific recommendations issued under the European Semester. Similarly, under the recently approved Recovery and Resilience Facility, Member States have to explain

how their recovery and resilience plans contribute to addressing the challenges identified in their CSRs. The purpose of the Commission's surveillance is, in both cases, 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 the enhanced surveillance (see paragraph 36).

93 In addition to the overlap between different Commission activities, the ESM, a body under an intergovernmental treaty, also monitors repayment capacity: it actually covers the same Member States as the Commission's surveillance (see paragraphs 24-25).

94 The Commission can activate enhanced surveillance where a Member State is experiencing or is vulnerable to financial difficulties. The Regulation did not specifically design enhanced surveillance to monitor a Member State after the exit of a macroeconomic adjustment programme. While the only Member State subject to enhanced surveillance to date (Greece) was exiting a macroeconomic adjustment programme, it was also considered vulnerable to financial difficulties. The Regulation does not specify the objective of enhanced surveillance when used as a post-programme surveillance device (see paragraphs 35-37).

Recommendation 1 – Integrate the different surveillance activities

- (a) In the context of the reflections pursued under the economic governance review, ongoing by May 2021, the Commission should consider the integration of PPS and enhanced surveillance into the European Semester.
- (b) In order to clarify the objectives of its surveillance activities, the Commission should consider provisions in the relevant legal act that explicitly mention the main PPS objectives: (i) assessing repayment capacity; and (ii) following up outstanding reforms agreed under the programme. Moreover, the Commission should specify that the objectives of the post-programme surveillance also apply to enhanced surveillance when the latter is used for countries exiting a macroeconomic adjustment programme.

- (c) The Commission should base its assessment of the ability of the Member State concerned to make timely repayments of its outstanding loan(s) on a robust risk-oriented approach, analysing recent risks to repayment, identifying potential new risks and quantifying them as much as possible.

Timeframe: As part of its forthcoming “Economic governance review” (by mid-2023).

95 The implementation of post-programme surveillance is characterised by a lack of flexibility that increases the administrative burden rather than providing added value. The Commission is bound by the Regulation to:

- implement post-programme surveillance until at least 75 % of the financial assistance provided by Member States, the European Financial Stabilisation Mechanism, the European Financial Stability Facility and the European Stability Mechanism has been repaid. This includes cases where the Commission concluded that a Member State’s economic situation has become sound and the repayment risk is low (see paragraphs [38-42](#));
- provide bi-annual reports on the result of its PPS. This frequency, also applied to visits, is justified shortly after exit from the macroeconomic adjustment programme, in order to maintain the reform momentum and reassure creditors. However, this is no longer the case once the Member State is back on track, nor is there enough relevant new information to justify carrying out visits and publishing reports twice a year (see paragraphs [43](#), [50-53](#) and [57](#)).

96 With regard to enhanced surveillance, the Commission is bound by the Regulation to provide quarterly reports. However, this frequency, which the Commission also applied to visits, is very burdensome both for the Commission and for the Member States concerned. Providing the requested data and information to the Commission makes resources unavailable to the relevant national authorities for their main task: implementing the reforms agreed to get the Member State back on track. (see paragraphs [48](#) and [54](#)).

Recommendation 2 – Streamline procedures and add flexibility

In order to render the surveillance activities less burdensome and more efficient, the Commission should consider proposing to amend the relevant legal act by introducing provisions making it possible to:

- (a) suspend post-programme surveillance before the 75 % threshold is reached, provided that the Commission gives a positive assessment of the Member State's repayment capacity;
- (b) reduce the frequency of post-programme surveillance communications to one per year, providing the Member State's situation is sufficiently improved. This should be accompanied by an equivalent reduction in the frequency of the Commission's review visits (which would not require any change to the legal act);
- (c) reduce the frequency of its reports under enhanced surveillance from four to two per year. This should be accompanied by an equivalent reduction in the frequency of the Commission's review missions (which would not require any change to the legal act).

Timeframe: As part of its forthcoming "Economic governance review" (by mid-2023).

97 In addition to the overlap with the activities under the European Semester, we found that the Commission did not systematically and formally agree with the relevant national authorities on a detailed list of reforms to be followed up (see paragraph 58).

98 Regulation (EU) No 472/2013 has not been revised to take into account subsequent developments in the EU financial governance framework, such as the surveillance/monitoring roles given to the Single Supervisory Mechanism and the Single Resolution Mechanism. We found overlaps with these forms of surveillance resulting in duplication of work and suboptimal use of resources (see paragraphs 64-65).

99 We also found that the Commission did not systematically and formally agree with the relevant national authorities on the type and timing of information to be provided under PPS, thus missing an opportunity for increasing the predictability of information to be provided and helping Member States to plan the collection of information (see paragraph 49).

Recommendation 3 –Improve interaction with the Member States and other stakeholders

The Commission should review its internal modalities to ensure that:

- (a) on exit from the macroeconomic adjustment programme it formally communicates to each Member State concerned (i) a detailed list of reforms to be followed up, together with a realistic timeframe for implementation and (ii) the specific information to be provided. The latter should be revised over time to ensure that the information requested remains in line with surveillance needs;
- (b) any overlap between post-programme surveillance and supervision in the context of the Single Supervisory Mechanism and the Single Resolution Mechanism is prevented. In particular, where the Commission considers an assessment of individual banks necessary, it should use as much as possible the results of the analysis done by the relevant EU bodies.

Timeframe: Mid-2022.

This Report was adopted by Chamber IV, headed by Mr Alex Brenninkmeijer, Member of the Court of Auditors, in Luxembourg on 13 July 2021.

For the Court of Auditors

Klaus-Heiner Lehne
President

Annexes

Annex I – Examples of duplication in reform monitoring under PPS and European Semester

Post-Programme Surveillance	European Semester
<p>Ireland – Autumn 2016 PPS report (published in March 2017) – page 27:</p> <p>Social Housing The Action Plan for Housing included a substantial expansion of the direct provision of social housing units. The <i>Rebuilding Ireland: Action Plan for Housing and Homelessness</i>, launched on 19 July, committed the government to directly providing 47 000 social housing units by 2021. The estimated cost is EUR 5.35 billion. Additional social housing units will contribute to increasing overall supply. Complementary reforms to the social housing system, such as cost rental, could help to reduce the cost of the direct provision of social housing. Otherwise, direct provision is likely to be more expensive in the long run than schemes operating via the private rental market.</p>	<p>Ireland – 2017 Country report (published in February 2017) –page 52:</p> <p>Social Housing Additional social housing units will contribute to increasing overall supply. The Action Plan included a commitment to directly provide 47 000 social housing units by 2021. The estimated cost is EUR 5.35 billion, meaning that social housing will account for approximately 40 % of the capital budget over the next four years. The addition of almost 8 000 new units per year would help to ease the pressure generated by the lack of supply. However, in the absence of complementary reforms to the social housing system, such as cost rental, direct provision of social housing may be more expensive in the long run than schemes operating via the private rental market.</p>
<p>Portugal – Autumn 2016 PPS report (published in March 2017) – page 20:</p> <p>Spending review Spending control remains challenging and the benefits from the spending review are still to be seen. Expenditure controls and containment have somewhat improved further to the application of the commitment control law. However, arrears point to inadequate accounting as well as budgetary planning and controls over spending, especially in hospitals. [...] The review focuses at present on the health and education ministries, state owned enterprises, (centralised) public procurement and real estate management, all areas that are deemed by the authorities as potentially yielding large efficiency gains. This exercise would benefit from a more comprehensive approach that includes all layers of the public sector as well as a set of concrete targets for savings.</p>	<p>Portugal – 2017 Country report (published in February 2017) – page 52:</p> <p>Spending review The current spending review appears would benefit from a more comprehensive and strategic approach. The authorities have started a spending review that focuses mainly on the health and education ministries, state owned enterprises, (centralised) public procurement and real estate management. This review falls short of a comprehensive approach that would encompass the public sector at large and be guided by a set of concrete savings targets. On the contrary, arrears in hospitals have been growing since the beginning of the year, indicating a lack of control over spending especially in the health sector.</p>

Post-Programme Surveillance	European Semester
<p>Cyprus – Spring 2019 PPS report (published in June 2019) page 22:</p> <p>Failure of Olympic Insurance The way forward after the failure of Olympic Insurance continues to be uncertain. The Cypriot Insurance Companies Control Service, suspended the ailing insurer's license in May 2018, following the insurer's failure to meet its solvency requirements. A liquidation procedure was initiated in early August 2018.</p>	<p>Cyprus – 2019 Country report (published in February 2019) – page 39:</p> <p>Failure of Olympic Insurance The failure of Olympic Insurance generated a number of uncertainties. The Cypriot insurance supervisor suspended Olympic Insurance's licence in May 2018, following the insurer's failure to meet its solvency requirements. A liquidation procedure was initiated in early August 2018.</p>
<p>Cyprus – Autumn 2018 PPS report (published in November 2018) pages 22 and 42:</p> <p>Three-pillar strategy to reduce NPLs In 2018, the Cypriot authorities devised and started implementing a three-pillar policy strategy for reducing NPLs in the banking sector. The strategy comprises: (i) a legislative package, which includes amendments to the foreclosure and insolvency frameworks and to the Sale of Loans Law and the adoption of a Securitisation Law; (ii) the sale of CCB good assets and liabilities, with the rest of assets remaining in the CAMC; and (iii) the setting-up of a temporary subsidy scheme (ESTIA) to deal with the NPLs collateralised by primary residences. Under the first pillar — strengthening of the legal and regulatory framework — the House of Representatives approved in the beginning of July 2018 a series of legal proposals aimed at removing impediments to NPLs resolution. The second pillar — which entails the removal of a big portion of bad loans from the banking sector — materialised in September 2018, when the CCB surrendered its banking license. Under the last pillar, the design of the ESTIA scheme was finalised in November 2018. The scheme is expected to be implemented starting from 2019. [...] The current judicial process weakens the enforcement of contracts and deters banks from using the available legal framework to reduce NPLs. Moreover, the performance of the ESTIA scheme referred to above depends to a great extent on the efficiency of the judicial system in ordering foreclosures for re-defaulters and non-eligible borrowers.</p>	<p>Cyprus – 2019 Country report (published in February 2019) – page 20:</p> <p>Three-pillar strategy to reduce NPLs The Cypriot authorities devised and started implementing a three-pillar policy strategy to reduce non-performing loans (NPLs). The strategy comprised: (i) a legislative package, including amendments to the foreclosure and insolvency frameworks and to the sale of loans law, and the adoption of a securitisation law; (ii) the sale of the Cyprus Cooperative Bank, which struggled with a high volume of NPLs, putting its residual entity into a wind down mode; and (iii) the setting-up of a temporary State support scheme (ESTIA) for addressing the NPLs collateralised by primary residences, the most challenging part of NPLs. Under the first pillar — strengthening of the legal and regulatory framework — the legal amendments aim to remove some impediments to NPLs resolution. The second pillar was implemented in September 2018, when the Cyprus Cooperative Bank surrendered its banking licence. Therefore, its impact on NPLs materialized already, with a big portion of bad loans having been carved out of the banking sector. Under the last pillar, the design of the ESTIA scheme was finalised in early November 2018 and is expected to be implemented in the first part of 2019 (see Section 4.2.1). The planned reform of the judicial system aims to strengthen contract enforcement and ultimately improve the country's payment culture (see Section 4.4.3). In addition, the performance of the ESTIA scheme greatly depends on the judicial system's efficiency in enforcing foreclosure procedures to re-defaulters and non-eligible borrowers.</p>

Annex II – Examples from successive PPS reports showing little progress in the implementation of structural reforms

PPS report	Cyprus: new Insolvency Service
Autumn 2016 (published in Dec 2016)	The new Insolvency Service of Cyprus started operating in June 2015 but needs more resources.
Spring 2017 (published in Jul 2017)	The new Insolvency Service of Cyprus started operating in June 2015 but needs more resources.
Autumn 2017 (published in Dec 2017)	The Insolvency Service of Cyprus started operating in June 2015 but needs more resources.
Spring 2018 (published in Jul 2018)	Work is ongoing to improve the effectiveness and efficiency of the Insolvency Service.
Autumn 2018 (published in Nov 2018)	More work is needed to improve the effectiveness and efficiency of the Insolvency Service.
Spring 2019 (published in Jun 2019)	Work is under way [...] on the enhancement of the efficiency and effectiveness of the Insolvency Service.
Autumn 2019 (published in Nov 2019)	The new Department of Insolvency, which is to be up and running by early 2020, should enhance the efficiency and effectiveness of the insolvency framework.
Spring 2020 (published in May 2020)	The Commission did not report on the Insolvency Service.
Autumn 2020 (published in Nov 2020)	The Department of Insolvency will deploy its new organisational structure in January 2021.

PPS report	Portugal: spending review
Summer 2016 (published in Sep 2016)	The government has launched a spending review of the public administration, as an attempt to further capture substantial expenditure savings.
Autumn 2016 (published in Mar 2017)	Spending control remains challenging and the benefits from the spending review are still to be seen.
Summer 2017 (published in Oct 2017)	Spending control remains challenging and benefits from the spending review are set to materialise only gradually without predefined savings targets.
Autumn 2017 (published in Jan 2018)	The spending review is gradually being expanded into new sectors. The more ambitious savings targets from the spending review in 2018 represent a positive development.
Summer 2018 (published in Sep 2018)	While the overall spending review was recently broadened and now shows more ambitious savings targets, future steps still remain to be specified.
Autumn 2018 (published in Feb 2019)	The spending review is due to be continued in 2019.
Summer 2019 (published in Oct 2019)	The ongoing expenditure review is progressing slowly and is estimated to lead to rather modest further efficiency savings.
Autumn 2019 (published in Apr 2020)	Growing pressure on the most sizeable items of current public expenditure remained somewhat unattended.
Autumn 2020 (published in Nov 2020)	The Commission did not report on spending review.

PPS report	Ireland: broadening the tax base
Autumn 2015 (published in Jan 2016)	The substantial activities of multinational enterprises (MNEs) expose Ireland to potential adverse revenue shocks that could arise from changes to international tax standards and practices.
Spring 2016 (published in Sep 2016)	The gradual phasing out of the Universal Social Charge (USC) contrasts with the commitment to maintaining a broad tax base.
Autumn 2016 (published in Mar 2017)	A broader tax base would increase the resilience of public finances to adverse events.
Spring 2017 (published in Jul 2017)	A broader tax base would improve revenue stability in the face of economic volatility.
Autumn 2017 (published in Feb 2018)	A broader personal income tax base would improve revenue stability in the face of economic volatility.
Spring 2018 (published in Jul 2018)	In view of the heightened external risks, [...] broadening the tax base would be prudent.
Autumn 2018 (published in Feb 2019)	A broader personal income tax base would improve revenue stability in the face of economic volatility.
Spring 2019 (published in Sep 2019)	Broadening the tax base and reducing the reliance on corporate tax revenues, would improve revenue stability. Recent revenue measures, on balance, contributed little to broadening the tax base.
Autumn 2019 (published in Feb 2020)	Broadening the tax base would strengthen public finances.
Autumn 2020 (published in Nov 2020)	A broader tax base would strengthen the resilience of public finances.

Annex III – Examples of significant delays in the implementation of reforms

Justice: Greece committed to implementing a Three-Year Action Plan on Justice, under which the establishment of the e-justice system (OSDDY-PP) was to be completed by mid-2020 and the electronic filing of legal documents was to be implemented throughout all the Courts by end-2019, having completed the tendering procedure by mid-2019.

The June 2019 report disclosed that the tendering documentation had not yet been finalized and that the launch of the tender had been postponed to September 2019. The following report informed readers that the launch of the tender had been further postponed to December 2019. The September 2020 report stated that the completion of the tendering procedure had been postponed to December 2020, a date confirmed by the November 2020 report, blaming the pandemic for the delay. The delivery of the IT system is thus delayed as a result of the above late start of the tender. Moreover, the timing for delivery was also prolonged. It is expected to take place 3.5 years after the deadline initially scheduled providing there are no further delays.

As for rolling out the electronic filing system through all judiciary courts, the February 2020 report disclosed that this deadline (end 2019) had been missed and implementation had started, but only for a subset of courts. The May 2020 report disclosed that electronic filing would be mandatory as of January 2021 and only for administrative courts, remaining an option for civil and penal jurisdictions.

Public administration: As part of the effort to modernise its public administration, Greece committed to appointing 69 Administrative Secretary Generals by end-2018.

The November 2018 report disclosed “significant delays with no appointment completed” until then.

The June 2019 report informed of 1 appointment and 4 selections and postponed the deadline for completing the 69 selections to December 2019.

The November 2019 report informed that a new law abolished the 69 posts of Administrative Secretary General, replacing them with 13 posts of Permanent Secretary, with the selection procedure due to be completed by January 2020.

Acronyms and abbreviations

ECB: European Central Bank

EFC: Economic and Financial Committee

ESM: European Stability Mechanism

IMF: International Monetary Fund

PPS: Post-Programme Surveillance

TFEU: Treaty on the functioning of the European Union

Glossary

Budget balance: The balance between total public expenditure and revenue in a specific year, with a positive balance indicating a surplus and a negative balance indicating a deficit.

European Financial Stabilisation Mechanism: EU instrument which allows the Commission to borrow in financial markets on behalf of the Union under an implicit EU budget guarantee to provide financial assistance to any EU country experiencing or threatened by severe financial difficulties with a view to preserve financial stability. Today, euro area countries in need of financial assistance are expected to turn to the European Stability Mechanism (ESM).

European Financial Stability Facility: Special purpose vehicle created and owned by the euro-area Member States as a Luxembourg-registered company owned by them and designed as a temporary rescue mechanism for borrowing resources guaranteed by euro-area Member States in the financial markets with the purpose of on-lending them to euro-area Member States in difficulty. The Facility does not provide any further financial assistance to euro area countries experiencing or threatened by financing difficulties, as this task is now performed solely by the ESM.

European Stability Mechanism: The ESM was set up in October 2012 as a permanent intergovernmental organisation. Like its predecessor, the temporary European Financial Stability Facility, the ESM provides financial assistance to euro area countries experiencing or threatened by severe financing difficulties, if indispensable to safeguard the financial stability of the euro area as a whole. The mechanism provides financial assistance through the issuance of debt securities.

Exit from a macroeconomic adjustment programme: The programme, which sets an end date, expires following the successful completion of a final review by the Commission.

Greek Loan Facility: The Greek Loan Facility is the first financial support programme for Greece, agreed in May 2010. It consisted of bilateral loans from euro area countries, amounting to €52.9 billion, the Commission does not act as a borrower for the Facility, but is entrusted with the tasks of coordinating and administering the pooled bilateral loans.

Primary (budget) balance: The budget balance net of interest payments on general government debt.

Single Resolution Mechanism: Mechanism under which the Single Resolution Board and national resolution authorities have centralised power of resolution, being directly responsible for the resolution of banks in Member States participating in the banking union.

Single Supervisory Mechanism: Mechanism for supervising banks, comprising the ECB and the national supervisory authorities of participating countries.

Replies of the Commission

<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59351>

Timeline

<https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59351>

Audit team

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This performance audit was carried out by Audit Chamber IV Regulation of markets and competitive economy, headed by ECA Member Alex Brenninkmeijer. The audit was led by ECA Member Alex Brenninkmeijer, supported by Raphael Debets, Head of Private Office and Di Hai, Private Office Attaché; Marion Colonerus, Principal Manager; Giuseppe Diana, Head of Task; Stefano Sturaro, and Laura Lalikova, Auditors. Zoe Dennis provided linguistic support.

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The Commission is responsible for the surveillance of euro area Member States exiting a macroeconomic adjustment programme to ensure they maintain their economic and financial stability. This is of benefit to Member States and their lenders. We examined the design, implementation and effectiveness of the Commission's surveillance for the five Member States concerned (Ireland, Greece, Spain, Cyprus and Portugal). We found that, while surveillance was an appropriate tool, its efficiency was hampered by unclear objectives and insufficient streamlining and focus in implementation. We have made recommendations to the Commission to address these issues, including a revision of the relevant legislation to integrate its surveillance activities into the European Semester.

ECA special report pursuant to Article 287(4), second subparagraph, TFEU.



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