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COMMUNICATION FROM THE COMMISSION

Enhanced Surveillance – Greece, November 2018

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Background

Greece successfully completed its European Stability Mechanism (ESM) stability support programme on 20 August 2018. Following the end of that programme, Greece has been integrated into the regular economic surveillance framework for euro-area Member States under the European Semester for economic policy co-ordination. In order to cater for the specific needs and challenges of Greece, the Commission has activated enhanced surveillance for Greece under Regulation (EU) No 472/2013[1], effective as from 21 August 2018.[2] That decision acknowledges the fact that over the medium term, Greece needs to continue adopting measures to address the sources or potential sources of economic and financial difficulties, while implementing structural reforms to support a robust and sustainable economic growth.

Greece has affirmed its general commitment in the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted under the financial assistance programmes are safeguarded. The authorities have moreover developed a Growth Strategy and plan to monitor its implementation.

The Commission will release enhanced surveillance reports on a quarterly basis, following a timetable that is aligned with key steps of the European Semester. In the context of enhanced surveillance, the Commission, in liaison with the ECB[3] and, where appropriate, the IMF, conducts regular review missions to verify the progress made; the ESM participates both in the context of its Early Warning System and in line with the Memorandum of Understanding of 27 April 2018 on working relations between the Commission and ESM. In preparation of this report, a joint mission to Athens took place on 10-14 September 2018.

This first enhanced surveillance report is issued alongside the 2018 autumn Semester package that includes an assessment of the 2019 draft budgetary plan sent by the Greek authorities to the Commission on 15 October 2018. Following the submission of the draft budgetary plan, a package of discretionary measures to be included in the 2019 budget has been finalised that meets the agreed primary surplus target of 3.5% of GDP. The Commission considers that the final package is a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion.

Enhanced surveillance provides a comprehensive framework for monitoring economic developments and the pursuit of policies needed to ensure a sustainable economic recovery. It

[1] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140, 27.5.2013, p. 1

[2] Commission Implementing Decision (EU) 2018/1192 of 11 July 2018 on the activation of enhanced surveillance for Greece, OJ L 211, 22.8.2018, p. 1.

[3] ECB staff participated in the review mission in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

includes an assessment of economic and financial conditions in Greece as well as an assessment of implementation of the general and specific reform commitments given by Greece to its European partners.[4], The specific commitments to complete key structural reforms started under the programme are in six key areas and have agreed deadlines up to mid-2022, namely (i) fiscal and fiscal-structural policies, (ii) social welfare, (iii) financial stability, (iv) labour and product markets, (v) privatisation and (vi) the modernisation of the public administration. Finally this enhanced surveillance report includes an update on sovereign financing conditions as well as a technical update of the debt sustainability analysis.

The Eurogroup on 22 June 2018 agreed that the package of debt relief measures for Greece should include incentives to ensure a strong and continuous implementation of the reform measures agreed in the programme. To that end, some of the agreed debt measures will be made available to Greece on a semi-annual basis up to mid-2022, subject to compliance with its commitments regarding reform continuity and completion and based on positive reports under enhanced surveillance. They include (i) the return of income equivalent amounts stemming from central banks' holdings of Greek bonds under the Securities Markets Programme and the Agreement on Net Financial Assets, and (ii) a waiver of the step-up interest rate margin for part of the loans provided by the European Financial Stability Facility. The two measures amount to EUR 1.3 billion and EUR 0.2 billion per year respectively.

Steady growth, but with risks and challenges

Greece is now experiencing a period of steady growth. Real GDP is expected to grow by 2% in 2018, strengthening to 2.2 % of GDP in 2019 and 2.3% in 2020.[5] Growth in 2019 is expected to be supported by the budget for 2019, which includes discretionary measures to reach a primary surplus of 3.5% of GDP in line with agreed targets. Domestic demand and in particular private investment is expected to become the driver of growth in the coming years with robust export growth expected to be offset by growth in imports on the back of strong investment growth. Recovery in the labour market is expected to continue as economic activity picks up and is supported by the reforms adopted under the programme. The unemployment rate fell to 18.9% in August 2018, down from 20.8% a year earlier, and down from 24.5% in August 2015, when the ESM programme started. Despite that positive trend, the unemployment rate is still very high, particularly amongst the young, with 38% for under-25, and almost three in four unemployed are long-term unemployed. The full rollout of the social welfare reforms aimed at improving the efficiency, effectiveness and adequacy of the Greek social welfare system could support an improvement in the social situation in the coming years. Wage developments have been moderate and for the future, it will be crucial that social partners and the Greek authorities keep wage developments aligned with increases in productivity to safeguard wage competitiveness gains and positive employment creation achieved under the programme.

[4] https://www.consilium.europa.eu/media/35749/z-councils-council-configurations-ecofin-eurogroup-2018-180621-specific-commitments-to-ensure-the-continuity-and-completion-of-reforms-adopted-under-the-esm-programme_2.pdf

[5] The growth forecast reflects a fiscal package that is projected to deliver a primary surplus of 3.5 % of GDP in 2019. That forecast is different from the Commission's 2018 autumn forecast, which was based on a no-policy-change assumption given that the final package was not yet finalised at the time of its cut-off date. The forecast for 2020 continues to build on the achievement of the fiscal target.

Despite some positive signs, financing conditions remain difficult and could hinder recovery. Following, Greece's successful exit from the ESM programme, the creation of a very substantial cash buffer and agreement on a substantial package of measures to ensure the sustainability of public debt, Greece's sovereign credit ratings improved. However, sovereign spreads have stayed elevated amid a difficult external environment and domestic vulnerabilities. That context is posing particular challenges for the private sector. Overall, the balance of macro risks is tilted to the downside, linked to the potential for domestic policy slippages and a weak intermediation capacity of the banking sector as well as adverse external developments, including a marked slowdown in global trade.

The decade-long crisis in Greece has many legacy effects not only in the form of unemployment but also in the form of public and private debt and non-performing exposures (NPEs). The elimination of balance sheet or stock problems still requires years of sustained growth backed by continued implementation of structural reforms to reduce the overhang, during which Greece is likely to remain exposed to economic shocks.

A key issue to ensure the achievement of sustainable growth that requires special attention is the erosion of the capital stock. Greece's annual fixed investment fell by 65% between its peak in 2007 and trough in 2017. The gap in investment flows can be corrected within a few years, and central to doing so will be the efforts to enhance the business environment, especially relating to the justice system and property registration.

A 2019 budget in line with the primary surplus target of 3.5% of GDP

After discussions following the submission of the draft budgetary plan to the Commission, a package of discretionary measures to be included in the 2019 budget has been finalised by the Greek authorities: the Commission projects the 2019 budget to meet the agreed primary surplus target of 3.5% of GDP. As outlined in the Commission Opinion on the draft budgetary plan[6], the package respects the requirements of the Union's fiscal framework, as it ensures that a primary surplus of 3.5% of GDP and a general government balance of 0.2% of GDP are reached in 2019.

The package of discretionary measures differs from the fiscally neutral package of measures related to pension cuts due to take effect on 1 January 2019 that were pre-legislated in mid-2017. The Greek authorities plan to implement a freeze in pensions until 2022, but they will not proceed with the pension cuts associated with the immediate recalibration of so-called negative personal differences. In addition, the authorities aim to strengthen the social benefit system through the launch of a new housing benefit costing EUR 400 million in 2019. They also plan to reduce the social security contributions for certain categories of self-employed, to subsidise the social security contributions of employers for persons aged below 24, to cut the real estate (ENFIA) property tax, to lower the expenditure ceiling for the Public Investment Budget to levels which the authorities consider to be more realistic in light of persistent underspending, and to progressively lower corporate income taxes starting from 2020. The Greek authorities have not informed the institutions of plans to change the pre-legislated measure related to lowering the income tax credit foreseen for 1 January 2020.

[6] Commission Opinion on the Draft Budgetary Plan of Greece, C(2018)8016 of 21 November 2018.

The Commission considers that the final package of discretionary measures to be included in the 2019 draft budget is a balanced approach to meet agreed fiscal and economic goals in a manner that is also supportive of social inclusion, for several reasons.

- the package of measures leads to a primary surplus of 3.5% of GDP in line with the agreed targets;
- the implementation of the pre-legislated cuts in pensions is not needed, neither to reach nor to sustain a primary surplus target of 3.5% of GDP over the medium term. Moreover, the proposed freeze in pensions up to 2022 is projected to lead to the same level of pension spending as a share of GDP in the steady state compared to the outcome if the pre-legislated pension cuts are implemented in full in 2019. Provided the reforms enacted in 2015 and 2016 continue to be fully implemented, pension spending is projected to fall from 17% of GDP in 2016 to the euro-area average of 13% by 2027;
- it is estimated that the implementation of the pre-legislated pension cuts would reduce the main pensions of some 1.4 million retirees by an average of 14%. Distributional analysis shows that the implementation of the pre-legislated pension cuts would result in a significant increase in the number of pensioners at risk of poverty;
- the 2019 draft budget allows for a partial implementation of the pre-legislated measures to increase spending on other social benefits which target poverty risks amongst children and working-age families. Building upon a reform of family benefits in place since the start of 2018, the Commission welcomes the planned launch in 2019 of a housing benefit costing EUR 400 million: according to Euromod simulations, thanks to effective targeting that measure is projected to have a material impact on reducing poverty risks amongst the young and concentrated in low income cohorts. Combined, these measures amount to additional spending of 0.35% of GDP on social benefits other than pensions, which is equivalent to half of the increase foreseen in the 2017 pre-legislated package.
- the package of discretionary measures included in the 2019 budget includes measures that lower taxes on labour, corporates and real estate, and as such go in the direction of measures included in the pre-legislated package for 2020. Those measures could support growth, although their impact will be relatively modest given their scale and composition. However, the design of the measure to lower social security contributions for the self-employed, which includes a bigger reduction for certain categories of professionals calls into question the objective of the 2016 pension reform to have a unified approach across different types of contributors. Lower ceilings will not necessarily have an impact on the actual level of public investment in 2019 given persistent underspending for several years. Moreover technical assistance will be provided through the Structural Reform Support Service to help address structural shortcomings in the setting and monitoring of public investment projects by the Ministry of Finance.

The fiscal projection is subject to uncertainty. Spending under-execution has contributed to budgetary over performance in recent years, even though this is not a desirable outcome in terms of the budget process or the impact on growth. The reduction of the investment spending ceiling has reduced upside risks to the fiscal forecast related to possible underspending. As regards downside risks and although not under the direct responsibility of the Greek authorities, one particular issue concerns a series of recent court cases and rulings which have, or could potentially, render invalid some aspects of reforms enacted under the ESM and earlier programmes. They include cases/rulings related to pension reforms enacted in 2012, 2015 and 2016 as well as measures adopted in 2012 that abolished the 13th and 14th monthly salaries of public sector employees. The actual impact of rulings, including their fiscal impact, will depend largely upon the reasoning of the courts and may require corrective actions to be enacted so as to ensure that the structural features of the reforms continue to be pursued and fiscal targets are safeguarded. The Greek authorities should monitor fiscal risks, including court rulings, and are invited to take offsetting measures as needed to meet the medium-term fiscal targets in the context of the Medium-Term Fiscal Strategy (MTFS) and its annual updates.

The Greek authorities intend to adopt one-off measures that use part of the expected overshooting of the 3.5% of GDP primary surplus target for 2018 but no specific proposals have been provided. Such measures should only be considered provided there is a suitable safety margin to cater for possible future data revisions to the fiscal outturn. In the event of such measures being considered, priority should be given to the clearance of any remaining liabilities arising from court decisions, and full compatibility with policies monitored under enhanced surveillance would need to be ensured.

Fiscal structural reforms: progress with reform commitments

The authorities are advancing with the reform of the ENFIA property tax to gradually align the assessment of zonal values to market prices. Administrative capacity is being set up benefitting from technical support and a permanent framework law on valuation is under preparation.

As regards the independent revenue administration (IAPR), progress is mixed. Key performance indicators concerning tax debt collection continue to be achieved. However, delays and shortfalls are observed in some important areas. Most notably, the end-2018 staffing target of the IAPR may be missed due to delays in an external competition for tax administrators/customs officials and with the implementation of the mobility scheme. Furthermore, delays continue to be observed in finalising the IAPR Reform Action Plan, which sets out investments necessary to further strengthen the IAPR's capabilities, as well as in adopting the required enabling legislation to complete the human resources reform, which will introduce grading, remuneration and performance assessment tailored to the IAPR.

Arrears clearance is also behind schedule. The authorities are implementing structural measures to address the sources of arrears accumulation and to clear arrears. That said, the clearance of arrears has not proceeded fully in line with expectations, as the end-August 2018 stock of arrears still stood at EUR 3.2 billion under the programme definition. A refined arrears definition for enhanced surveillance purposes shows a net stock of arrears of EUR 1.7 billion, taking into account new granular data as well as elements that are cleared through offsets or cannot be cleared due to legal or technical constraints beyond the authorities' control. Some EUR 1.1 billion of funds for arrears clearance have been transferred to government entities' accounts but remained there until end-August 2018, due to a delay in transferring the funds, which left the entities limited time for absorption. Those funds will need to be passed on to final recipients without delay. Looking further ahead, timely and full implementation of the agreed action plans will remain essential, in line with Greece's commitments.

It would be warranted for the authorities to implement actions to eliminate the backlog of claims made by banks under State-guaranteed loans. In that context, the authorities are invited to undertake a review of internal processes and capacity to ensure the timely and effective assessment and payment of claims under State-guaranteed loans at the latest by the end of the first semester of 2019.

A modern and sustainable social welfare system: progress with reform commitments

In recent years, major reforms have been undertaken to modernise all aspects of the social welfare system in Greece involving comprehensive reforms of pensions, health care and other social benefits. These reforms have received technical support from the World Health Organisation and the World Bank via the Commission's Structural Reform Support Service.

Progress is being made on the implementation of the 2016 pension reform, with the recalculation of pensions progressing in line with plans. The action plan for the unified main pension fund EFKA was updated with a view to fully complete its setup by mid-2020, in line with commitments.

Progress with health care reforms is more mixed. Although the authorities continue to implement many measures, there are headwinds stemming from stakeholder resistance/opposition and resource and capacity constraints. Those factors have slowed down progress with the offsetting and collection of clawbacks, the establishment of the primary health-care centres as well as the permanent establishment and staffing of the body responsible for centralised health-care procurement (EKAPY). The planned extension of deadlines for clawback collection that were themselves already long, or plans to pass from bi-annual to annual pharmaceutical repricing, would be a step in the wrong direction. The reforms to establish primary health care centres and centralised procurement are proceeding, but at a rate which is slower than foreseen. They need to be pursued with determination.

Progress is being made to carry forward the reforms of the social safety nets initiated under the ESM programme. The authorities have taken welcome steps towards the completion of the Social Solidarity Income scheme and in particular the labour market reintegration pillar; however, for the full functioning of that pillar, the on-going reform of active labour market policies needs to be completed, introducing a new delivery model to allow the provision of individualised services to jobseekers as well as the provision of social services. The authorities are also progressing with the completion of reforms of the disability benefit and transport subsidies. As part of the budget for 2019, a housing benefit with an annual budget of EUR 400 million will be introduced.

The financial sector: progress with reform commitments

Substantial measures have been taken during the ESM programme to strengthen the banking sector. During the first half of 2018, the average Core Equity Tier 1 ratio of Greek banks remained broadly stable at approximately 16%. Banks continued to reduce their reliance on Eurosystem funding; private-sector deposits have increased which gave room for a further loosening of capital controls as of 1 October 2018. Banks have broadly met their reduction targets for non-performing exposures (NPE), yet significant further efforts will be needed to accelerate the resolution of NPEs needed to meet targets in 2019. Overall, the banking system remains burdened by the heavy legacy of the crisis. In spite of recent improvements, the main task of cleaning-up banks' balance sheets remains to be addressed as NPEs still amount to just below 48% of total exposures and the bank-sovereign nexus remains strong both of which continue to weigh on banks' profitability. Bank lending activity remains subdued, which is a key factor. Banks need to focus on expanding their lending if they are to generate sufficient profits to cover the cost of NPE reduction. Net interest margins are healthy at around 2.5% but are under pressure.

Regarding the tools for NPE reductions, banks mostly made use of write-offs and NPE sales so far. The use of electronic auctions is improving, though it remains at a low volume compared to pre-crisis levels, with limited interest from third-party buyers. Banks retain 80% of assets sold through auction on their balance sheets. Continued monitoring of the effectiveness of the e-auction framework is needed and any identified impediments should be appropriately addressed. Uptake of the new corporate procedure remains slow as does the processing of household insolvency cases, although the latter is expected to see improvements following recent measures to increase efficiency and deter strategic default behavior. The volume and turnover of out-of-court workouts remain very modest as assessed against initial expectations, and both regulatory and technical measures are being taken to enhance the performance of the system.

The Greek authorities have indicated their intention to adjust the protection on primary residences under the Household Insolvency law, which is set to expire on 1 January 2019. As an adjustment would be a material change compared to the reform agreed in late 2015 and given the tight time constraint, more details are needed for a proper assessment to be made, and any legislative changes should only be undertaken following a dialogue with all relevant stakeholders. A possible adjustment should not impede the process of NPE restructuring, should have a narrower scope and should be combined with strict conditions, including property value criteria such that such protection better targeted on the most vulnerable in society. Another important principle is that any protection does not unduly impede the ability of banks to pursue strategic defaulters. Any proposals should eliminate practices whereby the framework is misused to block the conduct of already planned electronic auctions. The backlog of pending cases under the household insolvency law was reduced to around 135,000 as of September 2018. The pace of reduction needs to be further increased to achieve the elimination of the backlog of cases until end-2021.

Work to establish a divestment strategy for the Hellenic Financial Stability Fund (HFSF) is progressing and will need to be pursued further in the coming weeks, given the aim of finalising it by end-2018. The authorities have also committed to extend the mandate of the HFSF Selection Panel to be in line with the mandate of the HFSF.

Product and labour market reforms: progress with reform commitments

Reforms of labour market institutions and wage bargaining in recent years have helped Greece regain cost competitiveness and are contributing to increasing employment rates and falling levels of unemployment. The functioning of the labour market is further being supported by an action plan on undeclared work, the implementation of which is on track and should be completed by end-2019.

The choices to be made by social partners and the Greek authorities in the coming months will play a key role in determining whether wage bargaining in the post-programme period delivers economically sound outcomes consistent with supporting competitiveness and growth, or whether the shortcoming of the pre-crisis period materialise again. In particular:

- it is not feasible at this stage for the Commission to assess the impact of agreed changes to the collective bargaining framework that entered into force upon the expiry of the ESM programme. To date several collective agreements have been extended at sectoral level, resulting in wage increases in some sectors, such as tourism. A critical issue for the future is whether social partners, with collective agreements, can introduce adequate scope for flexibility that can adequately cater for firms facing specific challenges.

- the authorities are in the process of revising the level of the statutory minimum wage, which will take place in January 2019. It will be critical that any decision on the new level of the minimum wage is taken based on a genuine consultation with the social partners following the process enshrined in Law 4172/2013. To safeguard competitiveness and to keep unemployment on a downward path, the revision needs to be made on the basis of a rigorous analysis of the underlying economic and labour market situation.
- the authorities have indicated their intention not to preserve the sub-minimum wage that currently applies to persons aged under 25, which would imply a considerable increase in the level of the minimum wage for that group. The Commission considers that a final decision on that issue should be taken only after a full impact analysis is conducted demonstrating that the potential impact on employment prospects for young people is limited, given that youth unemployment levels remain high and the share of minimum-wage earners in the youth population also appears to be large (41% in 2017).

The pace of progress with reforms in the product markets is mixed, with advances in some areas being offset by delays elsewhere. The cadastre and forest map project is advancing with the appointment of management and the recruitment of dedicated teams to ensure progress. At the same time, enabling secondary legislation to define the installation and operation licensing procedures for activities in the sector of environmental infrastructures has suffered delays with respect to the October 2018 deadline provided for in the primary legislation and work would need to be accelerated to make sure the end-2018 deadline can be met. The Greek authorities have not yet enacted the law on private clinics, which is pending since July 2018. Further clarification is also awaited on the actual impact of the earlier reform to day clinics in terms of achieving new licenses.

Reforms in the energy sector are progressing. In spite of some delay due to third parties, the divestiture of the Public Power Corporation's lignite-fired generation capacity is expected to be concluded early 2019. Necessary actions for the launching of the Target Model by April 2019 are progressing with the relevant rulebooks ready for regulatory approval and other preparatory steps advancing according to schedule. It will be essential to maintain reform momentum. Ensuring that the Target Model actually allows for the entrance of new players and realistic pricing is essential to underpin the future development of the energy market, combined with measures that provide the required support for investment in renewable sources.

HCAP and privatisation: progress with reform commitments

HCAP, the Hellenic Corporation of Assets and Participations, continues to make progress in work on its asset portfolios and the restructuring of its subsidiaries. On a positive note, the restructuring of the real-estate fund ETAD is progressing, with the process on the critical issue of staffing entering its final stage. Various governance initiatives are continuing in the State-owned enterprises, and standardised reporting is under development. Some specific reform commitments face challenges. In particular, the transfer of the Olympic Athletic Centre (OAKA) will not occur by end-2018, partly due to complexity, the expanded scope of the project and delays beyond the government's control. The process of reviewing and, where necessary, replacing board members of State-owned enterprises is encountering some delays. Recent legislation may overlap with aspects of the coordination mechanism or affect HCAP's rights regarding certain assets. The effect of that legislation is under review, and adjustments may be warranted in order to preserve the objectives and balance of the framework. It will also be important to put HCAP’s preparations for the implementation of the coordination mechanism into action rapidly, to help manage the interactions between HCAP and Ministries on issues related to public policy objectives.

Overall, progress is made on the privatisation tenders scheduled to be completed by the end of 2018. In particular, the tender for the natural gas transmission operator DESFA is on track, whereas delays occured in the transaction on the Athens International Airport, making its financial closing by end-2018 very challenging. As regards the Hellinikon project, progress on all pending issues is significant. However, due to the complexity of the project, a delay is expected on the urban planning and environmental approvals as well as the award of the casino licence. If the authorities continue their strong efforts, the project could be successfully completed in the first quarter of 2019.

In contrast, however, significant delays are being experienced on some privatisation tenders due to be completed in 2019. Whilst satisfactory progress is being made on the marina of Alimos, an open issues still exists in the joint sale (along with the other strategic shareholder) of a majority stake (50.1%) in Hellenic Petroleum. The tender for the Egnatia motorway is characterised by systematic delays and problems, showing a lack of ownership. Virtually no progress is being made in the implementation of that transaction due to various delays attributable to either Egnatia S.A. or the Ministry of Infrastructure. Significant delays have also been experienced in the enactment of the legislative amendment for sub-concessions for the regional ports. The Greek authorities need to take urgent steps to address the sources of delays, as those delays offset the positive effects on investor sentiment that can emerge from tenders which are proceeding well.

Public administration and the justice system: progress with reform commitments

Work on the human resource management reform of the public administration is ongoing. In particular, the mobility and performance assessment schemes are progressing well: the third mobility cycle was launched mid-2018 and has shown a remarkable pick-up in participation suggesting that the administration is increasingly using the tool. The complex reform of the establishment of an integrated human resource management system is also advancing with a view to fully complete the system at the end of 2019. The establishment of digital organigrams has over-achieved its target and technical preparation work is ongoing for the full system. The legal codification reform is progressing. The 'National Council for the Codification of Legislation' has adopted a national strategy that sets out the overall approach to be applied by the Ministries when carrying out legal codification, including a unified Labour Code by mid-2020. Work to establish the National Gateway for Codification and Reform of Greek Legislation by mid-2022 is also progressing according to plan.

There has been only mixed progress on managerial appointments due by end-2018, with the appointment of Directors General almost completed while the appointment of Administrative Secretaries is lagging behind schedule. Work would need to be accelerated to meet the deadline the authorities committed to fulfil.

A recently adopted change in the remuneration policy of the Ministry of Finance lacks consistency with a past reform to establish a uniform wage grid. The measure introduces a new allowance for some staff in the Ministry of Finance, causing a differentiation in the wage levels paid to staff undertaking similar tasks across Ministries and public entities. While the initial fiscal cost may be small, the measure undermines the essence of the uniform wage grid and may lead to fiscal risks associated with demands for similar payments coming from other parts of the public administration.

The size of the public sector in Greece is now broadly on par with levels in other euro-area Member States, and a key challenge is to avoid a return to pre-crisis practices of excessive levels of hiring in the public sector. New hirings of permanent staff during 2018 appear to be broadly in line with the attrition rule of one new entry for every three exits: however, as concerns temporary staff, the latest data for 2018 suggests that there could be an increase compared to the levels of 2017 and thus careful monitoring is needed. For 2019 and up until 2022, the attrition rule in the hiring plan included in the MTFS is adjusted to 1:1, which will allow for new hiring to be made in priority areas whilst maintaining the overall size of the public sector at its current level. The authorities intend exceptionally for 2019 a conversion to permanent contracts for a specific group of temporary staff seen to cover permanent needs (e.g. teachers). Given that that conversion (7,500 in total) will be met with a corresponding reduction of temporary contracts, the wage bill will be maintained at its current level and thus there is no expected fiscal impact. The current hiring plan set out in the MTFS is based upon the projected number of exits from the public sector, mostly due to retirement. It is therefore vital that the hiring plan based on the 1:1 attrition rule in the MTFS is in fact respected, and accordingly that the planning and announcements of recruitments to the public sector is based on prudent estimates.

There has been mixed progress in efforts to increase the efficiency of the judicial system, which is key to strengthening the business environment and attracting investment in the aftermath of the crisis. The authorities are expected to complete the establishment of the first phase of the electronic justice system by end-December 2018, in line with the specific commitment made to the Eurogroup. The second phase will follow immediately after drawing on the lessons from the first phase. To that end, the project has been extensively redesigned and upgraded as of September 2018 and its budget has been increased from EUR 13 million to EUR 24 million, necessitating a revision of its timetable, which is a priori justifiable in view of its expanded scope. A development giving cause for concern has been the postponement from mid-October 2018 to mid-September 2019 of the entry into force of certain provisions of the recently adopted out-of-court mediation framework. That postponement seems unduly extended as the recent findings of the Supreme Court could be reasonably addressed in a shorter timeframe, given their limited scope.

In line with the request of the Eurogroup of 22 June 2018, the Commission has continued to monitor developments in relation to the legal proceedings against the members of the Committee of Experts (CoEx) of the Hellenic Asset Development Fund (TAIPED) and the former President and senior staff of the Hellenic Statistical Authority (ELSTAT). Regarding the CoEx case, in April 2018, the Council of the Athens Court of Appeal issued a ruling referring the case to a public trial before the Athens Court of Appeal for Felonies. The Supreme Court Prosecutor appealed that ruling and the Supreme Court Council recently examined the appeal. Its ruling is now awaited. In the excessive deficit procedure-related case against former ELSTAT President A. Georgiou, the Greek Supreme Court Council referred the case back to the Athens Court of Appeal Council in May 2018. In September 2018, the prosecutor proposed that the case should be referred to a public trial: the case is currently pending before the Athens Court of Appeal Council. The developments in both procedures continue to raise serious concerns and the Commission will continue to monitor them closely and to report back in the context of enhanced surveillance.

Overall assessment on progress with specific reform commitments due by end 2018

Part of the evaluation concerns the specific reform commitments annexed to the Eurogroup statement of 21 June 2018. There were 16 specific reform commitments to be achieved by end-2018 covering all six policy areas. To date, all of them are progressing but none has been yet completed. In many instances, it is not unexpected that reforms with an end-year deadline have not been completed by mid-November, which is the cut-off date for this first enhanced surveillance report. The pace of implementation is broadly on track or subject to only short delays on commitments such as adopting a budget in line with agreed fiscal targets, the relaxation of capital controls, the completion of the first phase of the e-justice reform, the HFSF divestment strategy, the divestment of the Public Power Corporation's lignite-fired generation capacity, the restructuring of ETAD and the end-2018 privatisation tenders, considering that the delay in the Hellinikon project is beyond the control of the authorities.

However, there are delays for several specific reform commitments that would need to be addressed with urgency so as to ensure that all are completed as soon as possible and well before the issuance of the second enhanced surveillance report towards end February 2019. Those commitments include the staffing of the IAPR, arrears clearance, the roll-out of the primary health care system and centralised health-care procurement, the legal framework of the NPE resolution tools (and in particular the household insolvency law), the enabling secondary legislation to define the installation and operation licensing procedures for activities in the sector of environmental infrastructures, the transfer of the Olympic Centre to HCAP and the appointment of Administrative Secretaries.

Sovereign financing and debt sustainability analysis

Greece started its return to the sovereign bond market as from July 2017, with several issuances and a significant liquidity management exercise. Credit ratings have improved, inter alia in light of the Eurogroup agreement of June 2018, though they remain well below investment grade.

Despite the improved credit ratings, market conditions remain volatile, showing Greece's remaining vulnerability to shifts in market sentiment. The debt management agency plans to publish an issuance calendar for 2019. While issuances will serve to build market confidence and create liquidity for Greek bonds, they are not needed to meet short-term financing needs. Greece's cash buffer currently amounts to over EUR 26 billion, comfortably covering financing needs up to end-2020.

Given Greece's sovereign financing profile over the short to medium term, financing needs remain relatively contained due to its exceptional debt structure, with the amortization of medium- and long-term debt generally hovering at low levels of 2%-6% of GDP over the coming decade.

The sizeable cash buffer, favourable financing profile and agreed primary surpluses underpin Greece's repayment capacity.

A technical update of the debt sustainability analysis (DSA) shows that the assessment of the sustainability of Greece's debt has remained broadly unchanged from the last DSA published in June 2018. Implementation of the medium-term debt measures assures debt sustainability throughout the DSA horizon under the baseline scenario, keeping gross financing needs below the agreed threshold, i.e. 20% of GDP in the long term.