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Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Greece

and delivering a Council opinion

on the updated Stability Programme of Greece, 2011-2014

{SEC(2011) 717 final}

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies , and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010, adopted a decision on Guidelines for the employment policies of the Member States,¹ which together form the "integrated guidelines". Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

¹ Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

- (3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.
- (4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth.
- (5) On 3 May 2010, Greece presented an encompassing adjustment programme supported by financial assistance provided by the euro-area Member States and the IMF amounting to EUR 110 billion. The accompanying Memorandum of Understanding and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.
- (6) The key elements of policy conditionality have been enshrined in Council Decision 2010/320/EU and its subsequent amendments² addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit under the provisions of Articles 136 and 126(9) of the Treaty.
- (7) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes. Greece has not yet submitted an updated Stability Programme nor have specific Euro Plus Pact commitments and actions for 2011 been explicitly communicated by Greece. These are expected to be submitted to the European Council.
- (8) Over the last decade, Greece's growth performance was based on unsustainable drivers: consumption and residential investment booms were accompanied by high real wage increases and rapid credit growth; low real interest rates associated with euro adoption and financial market liberalisation fed the boom. The 2008-2009 global crisis exposed the vulnerabilities, including: unsustainable fiscal policies, partly hidden by unreliable statistics and temporarily high revenues; rigid labour and product markets; loss of competitiveness and rising external debt. While not at the origin, the banking sector was affected by the economic and confidence crisis. The extent of the deterioration in the fiscal position was revealed late due to grave deficiencies in Greece's accounting and statistical systems. This delayed the implementation of corrective measures. As concerns about Greek fiscal sustainability arose and global risk aversion heightened, market sentiment vis-à-vis Greece worsened sharply in early 2010. In April 2010, Greece asked for international financial assistance as it was confronted with sizeable financing needs and not able to access international capital markets.

² Council Decision of 10 May 2010 (2010/320/EU), (OJ L 145, 11.6.2010, p. 6); Council Decision of 7 September 2010 (2010/486/EU), (OJ L 241, 14.9.2010, p. 12); Council Decision of 20 December 2010 (2011/57/EU), (OJ L 26, 29.1.2011, p. 15); Council Decision of 7 March 2011 (2011/257/EU), (OJ L 110, 29.4.2011, p. 26).

- (9) Greece committed to implementing the economic and financial adjustment programme with the aim of correcting fiscal and external imbalances and restoring confidence in the short term. In the medium run, it should lay the foundations for a growth model that relies more on investment and exports supporting growth and employment. The programme foresees comprehensive action on three fronts: (i) a frontloaded fiscal consolidation strategy, supported by structural fiscal measures and better fiscal control; (ii) structural reforms in the labour and product markets to address competitiveness and growth; and (iii) efforts to safeguard banking system stability.
- (10) The Commission has assessed the draft National Reform Programme³. It has taken into account not only its relevance for sustainable fiscal and socio-economic policy in Greece but also its conformity with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU level input into future national decisions. In this context, the Commission stresses the urgency of implementing the planned measures to comply with Council Decision (2010/320),

HEREBY RECOMMENDS that Greece should:

fully implement the measures as laid down in the Council Decision 2010/320/EU as amended by Council Decision XXXX/XXX, and further specified in the Memorandum of Understanding of XX/XX/XXXX and its subsequent supplements[, in particular the last supplement of XX/XX/XXXX].

Done at Brussels,

For the Council
The President

³ SEC(2011) 717.