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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

containing the assessment required under Articles 24(3) and 120(3) third sub-paragraph of Regulation (EU) N° 1303/2013

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INTRODUCTION

Regulation (EU) No 1303/2013[1] of the European Parliament and of the Council of 17 December 2013 (hereafter 'CPR') requires the Commission to carry out a review of two financial provisions before 30 June 2016, namely the increase in payments for Member States with temporary budgetary difficulties according to Article 24 (hereafter, the 'top-up') and the maximum EU co-financing rate of 85% applicable to all operational programmes in Cyprus according to Article 120(3).

EXTENSION OF THE TOP-UP (ARTICLE 24 CPR)

The top-up was introduced in 2010 for Member States with the greatest budgetary difficulties[2].

These were the countries under adjustment programmes or having been subject to adjustment programmes during any time period from 2007 onwards. Upon request, eligible countries received additional payments of 10% on all their declared expenditure and continued receiving payments at 10 percentage points above the maximum co-financing rate as long as they were under the programme. The top-up had to be requested per programme and was granted even retroactively in all cases.

The provision enabled bringing forward EU payments compared to the original financial plan and thus resulted in an immediate easing of budgetary pressure, provided liquidity and reduced the level of the necessary national match-funding in cohesion policy. The consequent increase in absorption also contributed to reducing the risk of losing funds for a number of countries. However, the application of the measure led to a reduction in the overall financial volume of the programme, a possible reason for some countries not, or only partially, taking advantage of the provision.

Countries eligible for the top-up have benefited from the financial provision to a variable extent in terms of amounts depending on the level of certified expenditure for the period where they were under an adjustment programme. The top-up resulted in the Commission paying over EUR 3 billion (ERDF, ESF and Cohesion Fund contribution taken together) earlier than planned for Cyprus, Greece, Hungary, Ireland, Portugal and Romania from 2011 up until the end of 2015. The biggest beneficiary in financial terms was Greece (EU payments exceeding EUR 1.3 billion). Some countries (e.g. Latvia) did not make use of the provision at all, others requested the provision to be applied for certain programmes only (i.e. Cyprus, Ireland, Portugal).

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[1] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, OJ L 347, 20.12.2013, p. 320.

[2] Regulation (EU) No 1311/2011 of the European Parliament and of the Council of 13 December 2011 amending Council Regulation (EC) No 1083/2006 as regards certain provisions relating to financial management for certain Member States experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 337, 20.12.2011, p. 5.

2014-2020 programmes

In 2014-2020, the mechanism is maintained under Article 24(1) CPR and is applicable to EAFRD and EMFF as well. It provides for interim payments from the Commission being increased by 10 percentage points ("10% top-up") above the maximum co-financing rate for Member States with temporary budgetary difficulties until 30 June 2016.

Greece, Cyprus, Ireland, Romania and Portugal are currently eligible for the 10% top-up on interim payments for the 2014-2020 programmes for payment claims submitted before 30 June 2016[3] because these countries fulfilled the conditions set out in Article 24(1) CPR receiving financial assistance after 21 December 2013. Since that time, the financial assistance programmes for Cyprus, Ireland, Portugal and Romania have expired.

This means that Greece will be the only country which has a financial assistance programme in place on 30 June 2016.

Issues at stake and way forward

Two issues need to be considered when modifying Article 24 CPR, namely (i) the scope of eligible countries and (ii) the timing through which the provision applies.

As regards the scope of eligible countries, the inclusion of a mid-term review in 2016 suggests that those Member States which are no longer receiving financial assistance should no longer be eligible for the top-up. This is further supported by the legislator establishing a direct link between the adjustment programmes and the ESI Funds in Article 24 CPR. This direct link should be maintained. It would enable Greece and any other country falling under an adjustment programme in the future to be supported through the top-up mechanism. The legislative proposal is drafted in a way to apply also to any other country falling under an adjustment programme in the future.

A further revision of eligibility for the top-up in the 2014-2020 period does not appear necessary. Countries subject to adjustment programmes need to have certainty about the timing and level of EU payments which also have an effect on the size of their programmes and the necessary national match funding.

Regarding the timing of the provision, eligibility for the top-up of the 2007-2013 period ended on the day the country stopped receiving financial assistance. However, with regard to the 2014-2020 period, eligibility for the top-up was aligned with the end of the accounting year, which currently runs from 1 July until 30 June, i.e. 30 June 2016[4]. This system even applies to a Member State which stopped receiving financial assistance at the beginning of 2014.

The Commission proposes to continue eligibility until 30 June of the year following the calendar year in which the Member State stops receiving financial assistance under an adjustment programme. This approach follows the ESI Funds accounting year and would extend the period of eligibility by up to maximum18 months. It will provide financial security for the Member State concerned in planning the necessary national match funding to draw

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[3] The top-up related to the 2014-2020 programmes has not been used so far. This is due to the efforts of national administrations to successfully complete the 2007-2013 programmes and the low level of payments related to the 2014-2020 programming period.

[4] Article 2 point 29 CPR.

down ESI Funds. It will also reduce the risk of losing funds once eligibility for the top-up has expired.

EXTENSION OF THE MAXIMUM EU CO-FINANCING RATE OF 85% FOR CYPRUS

Article 120(3) CPR foresees an exceptional EU co-financing rate for all programmes in Cyprus of maximum 85% for the period of 1 January 2014 to 30 June 2017. This provision is only relevant for the ERDF, ESF and Cohesion Fund, but not for the EAFRD and EMFF For 2014-2020, Cyprus is classified as a more developed region for Structural Funds support. More developed regions normally benefit from a maximum EU co-financing rate of 50%.

Given that Cyprus signed an economic adjustment programme with the EU in March 2013, the CPR provided for Cyprus to benefit from an exceptional EU co-financing rate of 85% until 30 June 2017.

Given that the economic adjustment programme of Cyprus has expired at the end of March 2016, the question arises whether the country should continue to benefit from this rate after 30 June 2017.

Option (1): If the preferential EU co-financing rate for Cyprus were to end on 30 June 2017, the minimum national co-financing required for the rest of the programming period would be ca. EUR 144 million.

Option (2): If the 85% EU co-financing rate were to be applied throughout the whole programming period, the required national co-financing from 1 July 2017 onwards would be ca. EUR 45 million, i.e. ca. EUR 99 million less than under option (1). The difference in national co-financing in Cyprus for the second half of the programming period would be significant and correspond to ca. 0.16% of Cypriot GDP on an annual basis.

A closer look at key macroeconomic indicators shows that the economic situation of Cyprus is still very fragile. Table 1 below shows that Cyprus and Greece are the only two Member States with negative economic growth and declining investment. Both countries also feature high unemployment rates and the most stressed financial sectors as non-performing debts are around or above 30% of the total.

Given the deterioration of the economic situation of Cyprus, the country will also become fully eligible for the Cohesion Fund in the context of the mid-term review in 2016 according to Article 90(5)CPR.

Against this background, the Commission proposes to extend the maximum EU co-financing rate of 85% for Cyprus until programme closure. This measure will help bridging a period of high public investment needs in Cyprus on the one hand, and sustained fiscal consolidation efforts on the other, by increasing the necessary fiscal space for investments. It will also leverage investments of the private sector, which still has difficulties to obtain credits given the fragile state of the banking system and the financial sector.

Overall, the Commission expects the extension of the 85% EU co-financing rate to have a positive impact on the Cypriot economy by increasing its long term growth potential and improving the capacity of the economy to sustain its debt service and repay public debt.

Table 1: Key macroeconomic indicators in Member States eligible for top-up for 2014-2020 operational programmes until 30 June 2016

Average 2014-15	GDP growth	GDP per capita growth	Investment growth	Public Debt growth	Unemployment rate	Non-performing debt (% of total debt)
Cyprus	-0.7	-0.3	-7.9	0.1	15.9	36.3
Greece	-0.4	-0.2	-6.5	2.9	26.1	29.1
Portugal	1.3	1.9	4.2	2.2	13.4	10.3
Romania	3.3	3.5	4.4	6.7	6.8	16.9
Ireland	5.6	5.2	15.6	-2.6	10.4	17.3
EU	1.7	1.3	2.8	4.1	9.9	5.3

Source: AMECO, data for 2015 are taken from the winter forecast and will be updated when new forecast or historical data are available. Data on non-performing debt are taken from the European Central Bank and refer to the average in 2013-14.