Eurogroup
The President

Brussels, 2 July 2018

ecfin.cef.cpe(2018) 3759705

To the members of the Eurogroup

Subject: Eurogroup meeting of 21 June 2018

Dear colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting held on 21 June 2018 in Luxembourg. The Commission was represented by Vice-President Dombrovskis and Commissioner Moscovici. Our meeting was attended by ECB President Mario Draghi, by ECB Executive Board Member Benoît Coeuré and by ESM Managing Director Klaus Regling. We also welcomed Christine Lagarde, Managing Director of the IMF, for the IMF Article IV review of the euro area as well as the item on Greece.

1. IMF Art IV review of the euro area

The International Monetary Fund presented the outcome of the Article IV mission to the euro areaincluding the findings of the euro area Financial Sector Assessment Programme (FSAP). The Fund confirmed that euro area growth appears to be levelling off from the very high levels of late last year and is projected to remain above potential in 2018. Global and domestic risks are rising, in particular linked to trade tensions, reform delay among euro area Member States and political uncertainties. In this context, the Fund supported the ECB's monetary policy stance to remain accommodative, called on members to rebuild fiscal buffers and address structural issues to improve resilience. At the same time, the IMF called on Member States to act individually and collectively to address the euro area current account surplus. In its FSAP for the euro area, the Fund acknowledged substantive progress achieved through the Banking Union, and called for closing existing gaps in supervisory and resolution regulation and for further progress on reducing risks in the banking sector. Finally, the Fund invited members to strengthen the current architecture and build a deeper EMU, emphasising that in addition to the completion of the Banking Union and advancing the Capital Markets Union, a central fiscal capacity would strengthen the currency union's ability to cope with shocks.

The analysis and policy recommendations put forward by the Fund were broadly shared by the European Institutions. We agreed that the global financial crisis is now behind us and that the euro area now has an opportunity to act both at national level, where appropriate, and at European level to strengthen and complete our monetary union.

2. Greece – state of play

We welcomed the confirmation by the Institutions that the Greek authorities have completed all the prior actions under the fourth and final review. This allowed us to conclude that Greece has successfully completed the ESM programme.

We agreed on a statement that welcomes the post programme commitments by the Greek authorities and lays out the agreed debt measures and the final disbursement (see Annex I for details). It was argued that the issue of an exceptionally high burden remains to be solved. Finally, we congratulated the Greek citizens on their efforts over the last years and reaffirmed our commitment to continue to support Greece and its people in its further reform efforts to ensure sustainable growth.

3. Updated Draft Budgetary Plan of Spain

We discussed the updated draft budgetary plan (DBP) of Spain on the basis of the Commission opinion of 23 May. We agreed with the Commission that the budget of Spain is broadly compliant with the requirements of the Stability and Growth Pact (SGP). We endorsed a Eurogroup statement (see Annex II) to communicate the outcome of our discussions.

4. Cyprus post programme surveillance

We were informed by the Commission and the ECB about the main findings of the fourth post-programme surveillance mission in Cyprus, and by the ESM on its early-warning system. The institutions welcomed the continuing strong economic and fiscal performances. However, there are still challenges in the financial sector, as the level of NPLs remains very high. The Cypriot Minister stressed that reform momentum to tackle the stock of NPLs will be maintained.

We concluded that the risks to the economic and fiscal outlook have increased since the last PPS mission. We encouraged the Cypriot authorities to continue efforts to tackle the significant vulnerabilities in the banking sector.

5. Eurogroup work programme for the second semester of 2018

We endorsed the Eurogroup work programme for the second semester of 2018.

6. Miscellaneous

We welcomed Minister Tria and Minister Calviño, who as customary presented the policy priorities of the new Italian and Spanish governments, respectively. We welcomed their presentations and expressed our full support in the fulfilment of their responsibilities.

Yours sincerely,

Mário CENTENO

Annex I

Eurogroup statement on Greece 22 June 2018

Completion of the fourth and final review and growth strategy

The Eurogroup commends the Greek authorities for the completion of all the agreed prior actions of the final review of the ESM programme. We congratulate the Greek authorities and Greek people for the successful conclusion of the ESM programme. The Eurogroup acknowledges the significant efforts made by the Greek citizens over the last years. Greece is leaving the financial assistance programme with a stronger economy building on the fiscal and structural reforms implemented. It is important to continue these reforms, which provide the basis for a sustainable growth path with higher employment and job creation, which in turn is Greece's best guarantee for a prosperous future.

The Eurogroup welcomes the commitment of the Greek authorities to continue and complete all key reforms adopted under the ESM programme and to ensure that the objectives of the important reforms adopted are safeguarded. We also welcome the finalization of a comprehensive growth strategy by the Greek authorities. This strategy, which aims at enhancing Greece's long-term growth potential and improving the investment climate, underlines the Greek ownership of the reform process following the ESM programme. The Eurogroup further welcomes the signature of a 'Cooperation and Support Plan' between the Greek authorities and the European Commission's Structural Reform Support Services, which provides the continued provision of technical assistance to support reform implementation in the coming years.

DSA and primary surplus

The Eurogroup returned to the sustainability of Greek debt on the basis of an updated debt sustainability analysis provided by the European institutions. The implementation of an ambitious growth strategy and of prudent fiscal policies will be the key ingredients for debt sustainability. In this context the Eurogroup welcomes the commitment of Greece to maintain a primary surplus of 3.5% of GDP until 2022 and, thereafter to continue to ensure that its fiscal commitments are in line with the EU fiscal framework. Analysis of the European Commission suggests that this will imply a primary surplus of 2.2% of GDP on average in the period from 2023 to 2060.

The Eurogroup recalled the assessment of debt sustainability with reference to the agreed benchmarks for gross financing needs: GFN should remain below 15% of GDP in the medium term and below 20% of GDP thereafter while ensuring that debt remains on a sustained downward path.

The Eurogroup stressed the importance of basing its assessment on realistic and cautious assumptions, taking into account compliance with the EU fiscal framework and the impact of growth enhancing reforms and investment initiatives.

The Eurogroup agreed to implement, in addition to the short-term debt measures already in place, the following medium-and long-term debt measures in order to ensure that the agreed GFN objectives are respected also under cautious assumptions.

For the medium term, this includes the following upfront measures:

- The abolition of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme as of 2018.

- The use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP income equivalent amounts to Greece (as of budget year 2017). The available income equivalent amounts will be transferred to Greece in equal amounts on a semi-annual basis in December and June, starting in 2018 until June 2022, via the ESM segregated account and will be used to reduce gross financing needs or to finance other agreed investments.

  The two measures mentioned above are subject to compliance with policy commitments and monitoring, as outlined below.

- A further deferral of EFSF interest and amortization by 10 years and an extension of the maximum weighted average maturity (WAM) by 10 years, respecting the programme authorized amount.

We agreed that based on a debt sustainability analysis to be provided by the European institutions, the Eurogroup will review at the end of the EFSF grace period in 2032, whether additional debt measures are needed to ensure the respect of the agreed GFN targets, provided that the EU fiscal framework is respected, and take appropriate actions, if needed**.** The Eurogroup will take into account a positive assessment in the post programme surveillance, particularly in the fiscal area and economic reform policies.

In this context, **for the long term**, the Eurogroup also recalled the May 2016 agreement on a contingency mechanism on debt which could be activated in the case of an unexpectedly more adverse scenario. If activated by the Eurogroup, it could entail measures such as a further reprofiling and capping and deferral of interest payments of the EFSF to the extent needed to meet the GFN benchmarks defined above.

Post programme surveillance framework

The Eurogroup stressed that debt relief measures should include incentives to ensure a strong and continuous implementation by Greece of the reform measures agreed in the programme. To ensure the market credibility of the package of debt measures, we agreed that policy commitments related to the programme will be linked to the return of SMP-ANFA income equivalent amounts as well as to the abolition of the step-up interest rate margin up to 2022. In this context, the Greek authorities have made specific policy commitments, as set out in the annex, to complete key structural reforms initiated under the ESM programme (including commitments to complete actions whose implementation is not fully in the hands of government) against agreed deadlines and made a general commitment to continue the implementation of all key reforms adopted under the ESM programme.

The Eurogroup welcomes the intention of the European Commission to activate the Enhanced Surveillance procedure in the coming weeks and also the support for this approach by the Greek authorities. The quarterly reports under Enhanced Surveillance will enable closer monitoring of the economic, fiscal and financial situation and the post programme policy commitments and will serve as a basis for the Eurogroup to agree on the return of SMP-ANFA income equivalent amounts and the cancellation of the step-up interest margin on EFSF.

ELSTAT /COEX:

We recalled that the ongoing legal proceedings against the members of the Committee of Experts (CoEx) of TAIPED are a matter of very serious concern and we reaffirm our full confidence in the work of the experts, which was also confirmed by the Hellenic Court of Auditors. Preoccupations also concern the proceedings against the former President and senior staff of ELSTAT, notably as regards the alleged falsification of fiscal data. The Eurogroup continues to have full confidence that the data validated by Eurostat and delivered by ELSTAT since 2010, including the 2009 general government balance outturn, is in compliance with the rules that are applied in all Member States. The Eurogroup mandates the institutions to continue monitoring the developments in those cases and the supporting actions taken by the Greek authorities, including legislative actions if needed, for instance strengthening the independence of ELSTAT, in full respect of the independence of the judiciary, and report back to the Eurogroup in the context of the post programme surveillance.

Disbursement and cash buffer

Subject to the completion of national procedures, the ESM governing bodies are expected to approve the disbursement of the fifth and last tranche of the ESM programme amounting to EUR 15 bn. Out of this total amount, EUR 5.5 bn will be disbursed to the segregated account, to be used for debt servicing and EUR 9.5 bn will be disbursed to a dedicated account set up to build up cash buffers, to be used for debt service in case of needs. Such an account will be subject to appropriate safeguards and any possible future utilization of its funds for an efficient debt management will be agreed by the Greek authorities with the ESM/European institutions. Overall, Greece will be leaving the programme with a sizeable cash buffer of EUR 24.1 bn covering the sovereign financial needs for around 22 months following the end of the programme in August 2018, which represents a significant backstop against any risks.

IMF Participation

The IMF management welcomed the successful implementation of the ESM programme and the further specification of the debt measures given today by Member States. Although the Fund's own Stand-By Arrangement (SBA) can no longer be activated, the IMF confirmed its continued involvement in Greece in the post-programme surveillance framework alongside the European Institutions.

Finally, we also reaffirmed our commitment to continue to support Greece in its reform efforts to return to sustainable growth.

Specific commitments to ensure the continuity and completion of reforms adopted under the ESM programme

1: Fiscal and fiscal structural. *Greece will fully respect its commitment to ensure that its **annual budget** achieves a primary surplus of 3.5% of GDP over the medium-term which respects the objectives of key reforms enacted under the ESM programme. To this end, it will complete the full offsetting and collection of the clawback by June every year for the previous calendar year. On **tax policy**, Greece will undertake, by mid-2019 and mid-2020, nationwide valuation exercises of property tax value based on market values and will update property tax values for ENFIA and other taxes fully in line with market values by mid-2020. On **tax administration**, Greece will reach the agreed permanent staffing positions at the Independent Authority of Public Revenue (IAPR) of 12.000 by end-2018, 12.500 by end 2019 and 13.322 by mid-2021, by when the end-to-end IT collection systems will also be fully operational. Greece will continue to implement reforms in the area of **public financial management**, avoiding the accumulation of new arrears and will, by mid-2019, complete the implementation of reforms identified by the Hellenic Court of Auditors. In addition, Greece commits to complete the cash monitoring and forecasting for the General Government Treasury account system (end-2019), complete the Chart of Accounts for the central administration by implementing the fund and functional classifications in the 2021 State budget (mid-2021) and extend to this reform to General Government entities (mid-2022).*

2: Social welfare. *Greece will continue with efforts to modernise it social welfare system, working closely with technical assistance provided through the SRSS. The setup of the single **pension** fund EFKA will be completed by mid-2020. As part of the Greek authorities' strategy to modernise the **health care** sector, Greece will ensure the rollout of the primary health care system, in particular by opening at least 120 primary health care centres (TOMYs) by end-2018 and all 240 TOMYs by mid-2020. The main body responsible for central procurement (EKAPY) will be set up by end-2018, with a view to achieving a share of centralised procurement in total hospital expenditure of 30% in mid-2020 and 40% in mid-2022. Greece will complete the reform of **social safety nets** launched under the programme; to this end it will apply to all disability benefits the new approach for disability determination based on both medical and functional assessment by mid-2019, review the system of subsidies for local public transport by end-2019, and complete the roll-out of all three pillars of the Social Solidarity Income (SSI) scheme by end-2019.*

3: Financial stability. *Greece will continue to implement reforms aimed at restoring the health of the banking system, including **NPL resolution** efforts by ensuring the continued effectiveness of the relevant legal framework (i.e. household and corporate insolvency, out-of-court workout, NPL sales, e-auctions) and taking all necessary actions to this effect. Greece will implement the comprehensive action plan on household insolvency with the objective to eliminate the backlog of cases, including the process of pending applications, by end-2021. Financial training to judges, related to the above, will be provided by end-2018. In the context of implementing the Three-Year Action Plan on Justice, phases I and II of the establishment of the e-justice system (OSDDY-PP) will be completed by end-2018 and mid-2020 respectively and the electronic filing of legal documents will be implemented throughout the Courts by end-2019, having completed the tendering procedure by mid-2019. The **HFSF** will by end-2018 develop an exit strategy for the sale of its stakes in the systemic banks and the mandate of the Selection Panel of the HFSF shall aligned with the mandate of the HFSF; the independence of the HFSF will be fully respected and it shall continue to operate under commercial terms and without any political or other interference. The decision on liquidation or extension of the mandate for the HFSF will be taken by mid-2022. Greece will continue the relaxation of **capital controls** in line with the published roadmap.*

4: Labour and product markets. *Regarding the **labour market**, Greece will safeguard competitiveness through an annual update of the minimum wage in line with the provisions of Law 4172/2012. The implementation of the action plan on undeclared work will be completed by end-2019. Greece will complete the **investment licensing** reform, and to this end adopt all enabling licensing legislation (end-2018), finalise inspection legislation (mid-2020), revise the nuisance classification (mid-2021), finalise the simplification of investment licensing procedures in the agreed remaining sectors (mid-2020) and fully deploy the relevant ICT (end-2019) . Greece will complete the **cadastre** project by ratifying the complete cadastral mapping and forest maps by mid-2021, and as intermediate steps will complete the drawing of the remaining forest maps by mid-2019 and fully establish the cadastral agency and complete 45% of cadastral mapping by mid-2020. With a view to completing reforms in the **energy sector**, the agreed divestment of Public Power Corporation's lignite-fired capacity will be completed by end-2018. The Target Model will be fully launched by mid-2019, while the measures agreed as part of the joint assessment on the NOME auction system will be implemented by end-2019.*

5. HCAP and privatisation. *The Asset Development Plan and the Strategic Plan of HCAP will be implemented on a continuous basis. With a view to swiftly attracting investment to support a sustained economic recovery, Greece confirms its intention to complete of the transactions on the AIA concession, Hellinikon and DESFA (end-2018); HELPE* *(including transfer of remaining shares to HCAP) and Marina of Alimos (mid-2019); Egnatia, DEPA commercial, AIA shares, EYDAP, EYATH and the regional ports of Alexandroupoli and Kavala (end-2019); the sale or other form of monetisation of PPC shares, DEPA network, regional ports of Igoumenitsa and Kerkyra, and Kavala underground storage (mid-2021) and a number of other regional ports, based on the recommendations of the consultants of TAIPED and following the agreed process between the authorities and TAIPED (mid-2022). The transfer of OAKA to HCAP and the restructuring of ETAD will be completed by end-2018 and the review/replacement of all SOE boards by mid-2019.*

6. Public administration. *The implementation of reforms to modernise the public administration will be sustained. As part of this effort, Greece will complete reforms to* ***modernise human resource management in the public sector****, and in particular the appointment of Administrative Secretary Generals and all Directors General according to law 4369/2016 by end-2018 and independent assessment of this process, including follow-up measures (mid-2019), complete the 3rd cycle of mobility and performance assessments by mid-2019, and complete the integrated HR Management System (digital organigram for all public entities and link with single payment authority) by end-2019. In view of enhancing legal certainty and access to law through* ***legal codification****, the Labour Law Code and Code of Labour Regulatory Provisions will be adopted by mid-2020, and the National Gateway for Codification and Reform of Greek Legislation will be completed by mid-2022. Greece will implement all GRECO (Groupe d'Etats contre la Corruption) recommendations in the context of the implementation of its overall national* ***anti-corruption*** *plan by mid-2021.*

Annex II

Eurogroup Statement on the updated Draft Budgetary Plans of Spain for 2018

The Eurogroup welcomes Spain's submission of an updated Draft Budgetary Plan (DBP) for 2018, as requested in its statement of 4 December 2017, as well as the Commission Opinion issued on 23 May 2018.

We agree with the Commission Opinion that the draft budget of Spain is broadly compliant with the requirements of the corrective arm of the Stability and Growth Pact (SGP). Based on the Commission forecast, the headline balance is expected to be below 3% of GDP in 2018, but above the target set by the Council. Spain's structural balance is expected to deteriorate in 2018 based on the Commission forecast.

The Eurogroup invites Spain to ensure compliance with SGP provisions within the national budgetary processes and welcomes its commitment to take any necessary measures.

The Eurogroup recalls that in its December 2017 statement it raised concern about the limited structural fiscal adjustment expected in 2018 in some Member States in the context of favourable economic conditions, whilst noting the persistence of legacies from the crisis in some areas.

We will continue to monitor euro area Member States' fiscal and economic policies, as well as the budgetary situation of the euro area as a whole.