Introductory statement at ECON Committee of the European Parliament

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Informal Exchange of Views with the Economic and Monetary Affairs

Committee (ECON) of the European Parliament

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PLEASE CHECK AGAINST DELIVERY

Dear Chairman Gualtieri, dear members of the Committee,

Thank you for inviting me here with Minister Dijsselbloem today. This gives me the opportunity to talk about the European Stability Mechanism’s programme for Greece, and about the ESM’s role more generally. Minister Dijsselbloem has already spoken about Greece. I will add a few things from the perspective of the ESM. But let me first put this year’s developments in Greece in a broader context. As we sit here today, the euro crisis is receding, and the balance of risks is shifting to other parts of the world. That has everything to do with the big stepstowards deepener economic cooperation the euro area has taken in recent years. This has made our economies more resilient, and less vulnerable to shocks. And this bodes well for future economic growth.

Greece is only one of the ESM's five programme countries. Four of those five are success cases. Portugal, Spain and Ireland are now standing on their own feet again. What's more, they are reform champions, according to the OECD and the World Bank. Their economies are in much better shape. In Spain, growth should reach 3 percent this year. Ireland is even looking at 6 percent. Cyprus is on its way out of its programme, presumably by March. The country is growing again. GDP expanded in the first two quarters of this year at the strongest pace since 2009, and the labour market is also improving.

Greece remains a special case. Before the political upheaval earlier this year, it was clearly heading in the right direction. The economy had started to grow. Exports grew faster in 2014 than in any other EU country except Ireland. More people were finding work. It had even returned to the bond market. Greece also steadily climbed in the World Bank's global ranking of ease of doing business: to number 61 from 109 five years earlier. With the new government, the positive trend abruptly stopped this year. Now that a new package is in place, the conditions for a resumption of growth are there. But Greece can only become the next success story, if it sticks to the reforms it has committed to.

Yesterday's meeting of the Eurogroup concerned itself with Greece, amongst others. Cooperation with the government is good, and structural reform is proceeding. We concluded however, that some more work is needed before we can make the next €2 bn programme payment, and before we can release the €10 bn earmarked for banking recapitalisation.

It is not easy for any country to go through such changes. Replacing existing economic structures by modern ones is a painful process. Many people endure hardship. Salaries and pensions are cut, many lose their job. But reforms need to continue. It will take time before their effect will be felt in every layer of the economy. Yet the examples of Ireland, Portugal, Spain and Cyprus show that it can happen. Then, the benefits will be tangible and meaningful. The economy will grow. Fewer people will be out of work. Wealth will increase.

In return for the sacrifices, countries receive real solidarity from their euro area partners. Let me explain that. The ESM has received 80 billion euros in capital from euro area Member States. We do not use this money to make loans. It functions as a guarantee to provide us with a strong credit rating. That enables us to raise money at favourable rates in financial markets. In other words, European taxpayers do not spend money on Greece. But they do put capital at risk. And this is a form of financial solidarity that saves programme countries huge amounts of money. The cost that we charge to Greece is the same rate that we pay to our investors. At the moment, this is just 1 percent, well below the market rate for Greece. This is saving the country 8 billion euros annually. That is more than 4 percent of GDP - each year! Yes, Greece needs to do its homework, and this can admittedly be a painful process. But in return, euro area taxpayers do provide real financial support, each year. And this helps to make Greece debt burden sustainable.

You sometimes hear that Greece’s debt, currently at 180 percent of GDP is unsustainable. I disagree with that. The way to look at a country’s debt burden are its Gross Financing Needs. This is the money a country actually needs to pay back each year. And looking at it that way, Greece’s debt is sustainable, at least for the next decade. I have already mentioned our favourable rates. We also grant countries long periods in which they do not have to pay back their loans. Greece, for instance, will only have to make its first repayment to the ESM in 2023. Our loan maturities are very long. Greece is not a bottomless pit. If it continues to modernize its economy, it will follow the example of the four other programme countries. Nevertheless, creditors are willing to think about further debt relief if needed, and if Greece sticks to implementing reforms. What is out of the question however, is a nominal haircut.

Let me finally say a few words about accountability. You know that in a legal sense the ESM is not part of the European Union. This means that there is no formal relationship with the European Parliament. Nevertheless, the ESM is subject to strong political scrutiny. Member States retain ultimate control. Parliaments are involved, in line with national rules. In some countries, parliaments have a very strong position in shaping their minister’s stance. Our Board of Governors, which has to sign off on all our important decisions, consists of 19 euro area finance ministers. They have been democratically elected, and take their decisions by consensus. Minister Dijsselbloem is the political representative of the euro area and the ESM. So democracy is really in the ESM’s DNA. And I am more than happy to continue the informal dialogue with you.

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