Speech at Economist’s 20th Roundtable with Government of Greece

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The Greek programme

The Economist’s 20th Roundtable with the Government of Greece
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Ladies and gentlemen,

The timing of this conference is fortuitous. Just yesterday, the ESM disbursed €7.5 billion to Greece. It was the bulk of the second tranche in the third financial assistance programme. The total second tranche is worth €10.3 billion. The remainder of the money will be available when Greece meets further milestones, and after clearing some domestic arrears. This is an important moment both for Greece and for Europe. It is a recognition that Greece is making progress in modernising its economy. It also shows that Europe will not leave Greece alone. Greece is part of the European family. Europe has shown financial solidarity time and again. And we will continue to do so, if needed. In my remarks today, I will briefly highlight both sides of the relation: Greece and Europe.

Starting with Greece. The latest disbursement came after completing the first review. That is positive. But there were long delays. It took much longer to conclude the review than expected: nine months instead of three. Such delays are a drag on the economy. They hold up the reforms. And the long negotiations also caused an accumulation of domestic arrears, which pose another burden on the Greek economy.

The second review is coming up in autumn. It is good to be reminded that such talks should not take too long. Greece needs stronger ownership of the adjustment programmes. But let me now turn to the positive. I will list some of the main achievements in Greece. From my perspective Greece worked hard, with Europe. And that was not easy for the population.

In pension reform, it is good to see that the eligibility criteria for early retirement have been streamlined. There has also been a rationalisation of the various pension funds. This will help to bring current and future pension expenditure back to sustainable levels. In reforming the public administration, there has been good progress in making the public sector more efficient. Wages and benefits had to be reduced because they had increased too rapidly until 2009.

There has also been important reform of the personal income tax system, which has made the system more efficient, and which aims to broaden the tax base. And finally, despite initial delays, we have seen crucial progress in the area of privatisations. This should make the economy more efficient and generate revenue to reduce debt. Examples are the sale of Piraeus, the Athens port and of the regional airports. Also, a privatisation fund is now being created, which will start operating soon.

I recognize that this is an impressive list. Reforming an economy to this degree is a daunting exercise. The OECD and World Bank recognize that Greece has implemented more reforms during the last five years than any other country (though coming from a low level).

With these reforms, Greece is back on track to economic growth. It should resume a recovery that started in 2014. Back then, Greece had returned to economic growth, unemployment had begun to drop and it had successfully returned to the bond market on two occasions. But this good progress was interrupted by the political developments in the first half of 2015. This resulted in a severe setback for the Greek economy last year. Growth stalled again. Banks closed and capital controls were imposed and much of the good achieved through earlier reforms was undone.

Now let me turn to Greece's partners in these reform efforts. The other euro area countries have provided major financial solidarity to Greece, and are prepared to continue to do so. First, a brief reminder of the very meaningful debt relief that was granted to Greece four years ago, in 2012. There were a number of steps that included the reduction of interest rates, margins and fees, the extension of the average maturity of loans, and a number of other measures.

For the public sector, all this amounted to a reduction of 40 percent in Net Present Value terms. Private creditors accepted a nominal haircut of 53.5%. Obviously, these are very meaningful numbers. And this financial solidarity from the euro area is continuing. The ESM offers very favourable financing conditions. This is due to our high credit rating, which in turn, derives from our strong paid-in capital. Our shareholders - the euro area countries - have put up more than €80 billion in capital, the highest of any International Financial Institution in the world.

Our funding cost is below 1 percent, which we pass on directly to programme countries. The IMF charges 3 to 4 times more. This leads to considerable budget savings for countries. The Greek budget saved €8 billion in 2015 - or 4.6% of GDP - as a result of the 2012 debt relief from official creditors, and the favourable ESM lending conditions. This will be repeated every year and – if reforms continue - will lead to debt sustainability.

Now again, the euro area is willing in principle to support Greece's effort with further debt relief measures. The Eurogroup decided last month that certain short-term measures can already be applied during the course of the current programme. Obviously, this will depend on Greece's continued fulfilment of the conditions that have been set for the programme. If needed, mediumand long-term measures are possible later. So it is a step-by-step approach. This is appropriate for two reasons. First, it sets the right incentives to comply with the remainder of the programme. And secondly, by not providing the entire package upfront, we will be able to monitor how much relief is actually needed over the years. It is not possible to foresee now how the Greek economy will be doing in 10 or 20 years' time. So with the phased approach, euro area partners avoid granting either too much relief now – or not enough.

Ladies and gentlemen, let me stress an important point. The fact that the debt relief package is spread out over many years is not because Europe is reluctant to provide extra breathing room. On the contrary, it is a sign that we will continue to support Greece over many years. In the past, the ESM – the euro area – has demonstrated multiple times that it will not abandon Greece. And we will continue to recognize that Greece is an undisputed member of the European family. But let me repeat that what is needed in Greece is stronger ownership of the adjustment programme.

Much work remains to be done in the next two years. To complete the second review in autumn, Greece needs to reform labour law, create a more business-friendly environment for investments, and to facilitate trade. A successful implementation of this programme is the only way for Greece to regain market access and for any debt relief measures to have a real effect. It is the only way to restore competitiveness, and economic growth. Most of all, it is the only way to create more jobs and give the young generations the opportunities they deserve.

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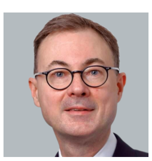

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