Rolf Strauch in interview with Naftemporiki (Greece)

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Interview with Rolf Strauch, Member of ESM Management Board
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Naftemporiki: When will Greece need money again from the ESM pursuant to the country’s financing needs? Practically, does the payment to the ECB in July have to be made with the ESM's money?

Rolf Strauch: We want to close this review as soon as possible, also to be in a position to keep the economy afloat. As the Eurogroup chairman Jeroen Dijsselbloem said, there is no immediate liquidity squeeze over the next months, but that does not mean that Greece does not need money. We want Greece to be in a position to further clear arrears and properly run its business. Without a disbursement from the ESM, the liquidity situation will become very tight. For the repayment that comes in July, ESM money will be needed.

The second review of the Greek programme has already been delayed for almost a year. Does this make it obvious that the return of the country to the markets will also be delayed? Is 2018 realistic?

To get back to the markets, the most important factor for Greece is the commitment to the programme and ownership of its policy reforms. Experience shows that this is the necessary condition. So, under the assumption that the government implements the reforms as foreseen, it is absolutely realistic that Greece can start to get back to the market. If you look back at 2014, Greece had started re-entering the market with a 5-year issue. It was possible then. In the meantime, Greece has done further reforms, the country has a primary surplus and growth is coming back. So the starting point at this stage is better. If confidence is built - that's the crucial point - the prospect of getting back to the market is good.

What are the safeguards for Greece if the country does not manage to return to the markets in 2018? Perhaps a fourth programme?

There is a very clear Plan A and our objective is that Greece returns to the market. When we move closer towards the end of the programme, a few months before, obviously we all have to consider the situation carefully. If Plan A is not viable at that stage, then we'll have to think what other options are available within the remit of our available instruments. But right now, market access in 2018 is a credible outcome and that is what we are working for.

What kind of signals do you get from the markets as far as Greece is concerned? Was the reaction to the short-term measures for Greek debt what you expected?

For the market participants what matters is the implementation of the programme and the credibility of the programme. This is item number one. This is why we need to make it work. And the government needs to make it work. Obviously, the short-term debt measures we have started to implement are also very important. Market participants follow them very closely. The measures are sizeable and improve significantly the sustainability of Greek debt: up to 20% percent debt reduction by 2060 and a 5% reduction of gross financing needs. The Greek people should be aware that we have already started implementing them for their benefit.

In your opinion, what are the main factors delaying the implementation of the Greek programme?

The main factor, and this is true for all our programme country experiences, is the commitment and the cohesion of the government. This is particularly true for Greece. Obviously what happened in the first half of 2015 under minister Varoufakis was extremely difficult and it caused great rupture. But now it's fair to give credit to minister Tsakalotos and deputy minister Chouliarakis for trying to move the programme ahead, always being conscious about the political situation in Greece. The working relationship with the institutions has improved substantially compared to the 2015 period.

Mr Regling has often said that Greece is a special case. I suppose that you agree. In your opinion, why is Greece a special case?

There was a very different starting position. The structural problems that Greece faced before the adjustment programme were much bigger than the problems that other countries faced. The degree in which the economy had to be reformed and the state had to be restructured - that is the magnitude of fiscal and current adjustment, and the quality improvement of public administration which you need to achieve - goes beyond what we had seen in any other country.

Could you give us the outline for the medium-term measures regarding the Greek debt, according to the ESM's approach?

On the medium-term measures, our approach follows the very clear statement agreed by all euro area countries back in May 2016, as you know. It foresees that first we take the short-term measures and then, at the end of the programme, we will decide about medium-term measures, if needed. These measures were already detailed in that statement: the permanent waiver on step-up margin on the interest rate; maturity extensions; and interest rate deferral. Additionally, if such measures will not be enough, further steps may be considered. What is very clear is that this does not entail nominal haircuts or any measures that would directly imply budgetary costs for member states. It is important to have clarity on the outcome of the programme as this sets the starting conditions of the relevant debt sustainability analysis.

In order to give the green light for Greek participation in the QE programme, the ECB needs – apart from the completion of the second review of the programme – some guarantees concerning the viability of Greek debt. Do you believe that the short-term measures are enough for the ECB? If not, what additional intervention on Greek debt would be capable to "unlock" the QE for Greece?

The key point here is that the review is completed, which is a necessary condition and one in which the Greek government can act upon. The rest is part of the judgement that the ECB will need to make. They are independent.

The Greek government and the IMF wish for the immediate definition of the medium-term measures for Greek debt. However, the Eurogroup considers that this must follow the completion of the programme in 2018. What is the ESM's approach and which solution can you detect as the most feasible, so as to keep all the parties involved at the table?

We are currently working very hard to keep all parties involved. The agreement that was made in May 2016 involved all the stakeholders. The sequencing that was outlined in that statement points to a decision to be taken in 2018. This also seems in line with what the Managing Director of IMF said recently in an interview in Germany. I think that is the way forward and we should stick to it.

How would you describe the profile of Greek debt? Under what preconditions is it viable?

To assess debt sustainability, looking only at the stock of debt is not sufficient. It is crucial to look at the flows which the government needs to manage. This is captured in the concept of gross financing needs. We have done a lot to make Greek debt viable from this perspective through the conditions of our loans: very long maturities and very favourable rates provide a lot of fiscal space to Greece and they add to a viable debt structure as the financing needs are kept low. We saw it before, in 2014, when the programme was moving. Investors were coming in, and those investors were recognising the viability of the debt structure over their investment horizon.

What kind of reforms would you say that Greece needs today?

Greece needs mostly the implementation of what was decided. This is the crucial step in order to make people feel the benefits of the programme. Greece needs investment to get growth and employment on solid levels. And for that to happen, whoever thinks about investing must feel welcomed by the administration. Everyone who has a contract must feel that the judicial system is efficient. Everyone must feel that there is cost efficiency of the public sector and of its services, which is why privatisation should move on. The experience in other European countries shows that privatisation and deregulation can bring very quickly benefits for the people. This is why, ultimately, the programme and its policies are the roadmap for growth and employment.

How close or how far are we to a European Monetary Fund?

This idea is part of an ongoing discussion about how to deepen Economic and Monetary Union (EMU). It is a very interesting debate that we are obviously following very closely for good reasons. Most recently, the White Paper of the European Commission on the future of the EU proposed to transform the ESM into a European Monetary Fund. Creating a European Monetary Fund will require the agreement of all the member states and an ESM treaty change. Could this happen? It may happen in the future. For the time being, we are focused on our current mandate, which keeps us quite busy.

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