Rolf Strauch in interview with Naftemporiki (Greece)

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Interview with Rolf Strauch, ESM Chief Economist
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Naftemporiki: The growth rates of the Greek economy do not seem to be convincing, something that is reflected in the negative reviews of international organizations. At the same time, it seems that the challenges as far as the structural issues are concerned remain significantly high. How solid is the Greek exit from the programme and what is the baseline scenario for the status of the following day? For instance, the European Commission suggests the context of the “enhanced surveillance”. Can this work?

Rolf Strauch: First of all, I want to recall the adjustment Greece has achieved so far. Don’t forget: in 2009 the country had a deficit of 15.6 % of GDP. Now Greece is was one of the few countries in the currency union with a budget surplus. This was only possible because the country implemented far-reaching reforms. As Greece enters the final months of its ESM programme, it is crucial that it remains determined in implementing the remaining reforms and in staying the reform course after the programme ends. Sustained reform ownership is the key to regaining market access and high growth performance. As regards the details related to the programme exit and the time afterwards: they are currently discussed and the plan is that the Eurogroup will take a decision on 21 June in Luxembourg.

How many and what kind of prior actions within the context of the third programme are expected to be possibly implemented totally after the end of the programme?

On 19 May, the European institutions agreed in the staff-level agreement (SLA) with the Greek government that Greece completes all remaining 88 prior actions until the next Eurogroup. There is a lot of work ahead but it can be done.

Two months before the end of the programme, the yields of the Greek government bonds are moving up, in an environment of increased risk in the markets due to the developments in Italy, among others. How do you assess this performance and where do you put the "cubit" for the Greek yields after the end of the program? Furthermore, what is your estimation as far as Greece's ability to stand alone in the markets, without the safety net of a precautionary credit line, after August 2018?

Current levels are still far below what we have seen during the crisis. The current changes in yields are not the result of the Greek government's policy. They are to a large extend the result of changes in the external environment on which the government has no direct influence. Investors have honoured the reform efforts Greece has undertaken under the ESM programme. This was demonstrated by the earlier bond issuances that met investor demand. However, it is not surprising that countries exiting a programme are vulnerable to external events. There is no magic number for the "right" yield. It is a process.The best thing Greece can do now is to demonstrate strong reform ownership and to clearly signal that the successful reform course will be continued. As far as a precautionary credit line is concerned, it is up to the Greek government to decide whether to make such a request. And as far as I know this is not in its intentions.

What is expected to be the amount of the disbursement, within the context of the 4th and last review of the Greek program, approximately?

First, the ESM still expects to disburse €1 billion to Greece from its last tranche approved after the completion of the third review. This disbursement can happen, if Greece demonstrates that it has reduced its government arrears further. One of the ESM programme's goals is to reduce the government arrears to zero. Another condition is that the e-auction system is working well. If these conditions are fulfilled, the ESM Board of Directors could decide to release the remaining €1 billion at its scheduled meeting of 8 June. The availability period of this sum expires on 15 June, so the disbursement has to happen before that date. Regarding the last disbursement, the final amount has yet to be decided. But I expect this to be a substantial amount. As Greece has a primary surplus, the ESM money is not needed to fill any budgetary gaps. Therefore, the money can be used to build up a cash buffer for the time after the programme. This is what happened as well in other programme countries. Several of them built up such a cash buffer towards the end of the programme. This cash buffer is expected to cover substantially more than 12 months of what Greece has to finance on the markets. It is meant to give the people and investors re-assurance that the Greek government faces a healthy liquidity situation. The experience of other countries has shown this is important to regain the trust of investors.

What is the ESM position regarding the settlement of the Greek debt and how does ESM assess the prospect of an automatic triggering of a debt relief mechanism according to the specifications of the French proposal?

First, I want to stress that Greece has already benefitted from unprecedented debt relief. The private creditors of Greece took the biggest debt restructuring in history. And we significantly extended the maturities of our EFSF loans. On top, there was a deferral of interest and redemption payments until 2023. That plus the favourable pricing of loans, where ESM passes on its favourable market rates, saves Greece billions in its budget every year. When it comes to possible additional debt relief, the Eurogroup statements of May 2016 and June 2017 are clear. The options on the table are a further extension of EFSF loan maturities, the transfer of the ANFA and SMP (Securities Market Program) profits of the Eurosystem back to Greece, the scrapping of the step-up margins and a possible buy-out of other official creditors with remaining ESM programme money. But this additional debt relief can only be granted if it is really needed and if Greece completes the ESM programme successfully. On top of that is the so-called growth adjustment mechanism (GAM) you referred to and question how exactly it is designed. The discussions are not concluded and can only be decided after we have a final analysis. The Eurogroup is committed to provide the support needed for Greece and at the same time expects that Greek governments will live up to their commitments under the European policy frameworks as other countries.

Is it certain that there will be decisions on the Greek debt at the Eurogroup

on 21 June?

It is the Eurogroup's goal to have a solution by the June Eurogroup. There have been discussions among experts for a while and among ministers in the last Eurogroup. That has increased the mutual understanding and narrowed differences. Also, the ESM is working with its partners on Greece's final Debt Sustainability Analysis (DSA). In other words, all the elements necessary for finding a solution are falling in line and I am optimistic that we will come to a decision at the June Eurogroup. But here it is again very important that the Greek authorities deliver on the prior actions beforehand.

What are practically the consequences if the IMF will not activate its funding program in Greece? In this case, will this mean that the IMF is out of the Greek case in the following day? Or not necessarily?

We are working very hard so that the International Monetary Fund (IMF) can still activate its programme. The IMF was a valuable partner in Greece since 2010. Even though the IMF did not have its own programme in parallel to the ESM programme since 2015 and even though it did not disburse any money to Greece during that time, the IMF still is very much part of the programme. IMF staff was deeply involved in the programme negotiation and in all the review missions. We hope that the IMF can come on board during the final stretch of the ESM programme.

How likely is, in your opinion, the implementation of the non-taxable income cut in 2019 instead of 2020? On the contrary, is there any possibility that the pension cuts, which are planned in early 2019, could be implemented later? And is this something that the Greek government has ever put on the table? Some government officials leave open the possibility of averting these further pension cuts after the end of the program.

These measures are part of the reforms that were agreed. They should help Greece to get a sound and growth supporting fiscal structure, which is also in line with those of many other euro area countries. In order to create the best possible conditions for the time after 20 August, it is important that Greece credibly demonstrates that it is committed to its reform path in the future. In our view the government will at the same time be able to take social spending reforms benefitting the Greek people in

need if it stays with its current primary budget surplus.
After 8 consecutive years of adjustment policies, Greece remains in the lowest positions of the international rankings in terms of competitiveness, which is also reflected in the extremely low rate of investment attraction. Certainly, this is not a success story. What has gone wrong?

Nothing has gone wrong. We know that Greece entered the programme with more structural weaknesses and larger imbalances than other countries. Therefore the Greek adjustment programme was certainly the most comprehensive one. Many measures were decided to make Greece more competitive and investment-friendly. The Greek administration needs to implement them and show ownership. One can see successes where this happens. For example, the privatisation of the Piraeus port and the airport was able to attract foreign capital. We also hope the authorities will soon conclude the Helenikon project, which has attracted investor interest. Moreover, Greece has regained price competitiveness vis-à-vis other countries. The gap which had emerged compared to other euro area countries when looking at unit labour costs could be very much narrowed again and we have seen export growth in the past years. Evidently, the fact that the programme ends does not mean that the efforts of the Greek authorities further improve can end.

Is the ESM concerned about the fact that the target for primary surpluses at 3.5% of GDP, for another five years, may have a negative impact on the growth prospects of the real economy in Greece?

Greece has outperformed its fiscal target during the last three years and already achieved a surplus of 3.5%. In our view, keeping such a primary surplus level until 2022 will be in line with a healthy long-term growth path. In fact, the primary surplus targets are part of the growth strategy presented by Finance Minister Tsakalotos in April. Showing strong fiscal performance gives confidence to the people and investors. It helps lowering the cost of financing for necessary investments. Therefore it adds to the medium- and long-term growth performance rather than undermining it.

The ESM is the largest creditor of Greece. How would you describe the ESM role and “routine” in Greece, I guess for many years, after the end of the programme?

Indeed, as crisis resolution mechanisms, #ESM and EFSF have disbursed around €188 billion to Greece. That corresponds to roughly 100 % of Greek GDP. Given this big amount of long-term loans, the ESM is the long-term partner of Greece. As Greece's largest creditor, we have an objective interest in Greece's economic success. The ESM is bound by the ESM Treaty and its "early warning system" to regularly go to Greece to make sure developments are going in the right direction so that eventually Greece will be able to pay us back. As is the case in the other programme countries, we are doing this together with the Commission and its "post-programme-surveillance". The Commission has said that it intends to apply "enhanced surveillance" after the programme, which implies a closer monitoring. The precise form of the post-programme arrangements with Greece are currently discussed. They could also be decided in the June Eurogroup.

In what scenario could taxes be reduced in Greece, in the medium term?

Greece will end the current programme soon and it is not up to me to make recommendations to Greece beyond what is agreed with the institutions and the European partners. Taxes can be reduced if Greece sticks to the agreed primary fiscal surplus target of 3.5 % until 2022 and to the extend Greece complies with the commitments under the European fiscal framework afterwards. How Greece achieves this is for future governments to decide. The programme experience shows that current tax rates are also the result of the weak tax collection effort which we have seen in the past. With the changes in the tax administration already introduced and further efforts to improve tax collection efforts, there could indeed be scope to lower nominal rates again and make the system overall more balanced.

Would you characterize the Greek exit from the programme as a clean exit?

The Greek programme was a special case as a result of the extent of problems that Greece was facing in 2010: The economic difficulties were much bigger than in the other programme countries, the implementation capacity of the Greek administration was much weaker than in other countries and the time of the adjustment was much longer. Also, the Eurogroup may decide additional debt relief measures for Greece. That is something that no other country benefitted from at the end of the programme. As a result of all this, the post-programme arrangements for Greece could also be different from how they were for the other programme countries. But there is no plan for a new programme. So yes, in this sense I characterize this as a clean exit.

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