Op-ed by Klaus Regling in Kathimerini (Greece)

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I remember my relief when euro area leaders agreed with Prime Minister Alexis Tsipras on an ESM assistance package in the early morning of 12 July 2015. This formed the basis for the new programme for Greece, which euro finance ministers approved on 19 August 2015. Crucially, it allowed the country to stay in the monetary union and to restart the reform process. We had just narrowly avoided a “Grexit”, which I had always warned would be the most expensive solution for Greece, and for the other 18 euro countries. For Greece, the risks would have included economic chaos and political instability in a region already riddled with geopolitical tensions.

As Greece is now leaving the ESM programme, I have been reflecting on these challenging times for the Greeks. I was, unfortunately, not surprised that Greece ran into existential problems at the end of 2009. I vividly remember the colourful graphs ECB President Jean-Claude Trichet regularly showed us in Eurogroup meetings, after Greece joined the euro. They indicated that wages, salaries and pensions in Greece had been rising faster than in any other euro area country since 1999. Unit labour costs were outpacing productivity growth. As a result, the country was undermining its competitiveness, and its current account deficit was becoming unsustainable. Investors finally refused to lend to Greece in 2009, shocked as they were by a huge upward revision of the Greek fiscal deficit to 15.6%.

The high current account and fiscal deficits, as well as the misguided policies that had been implemented for years, could be corrected only through painful structural reforms such as cutting wages, salaries, pensions, and staff levels in the public sector. This was necessary for Greece to become a sustainable and competitive economy again. I deeply regret that these enormous efforts by large parts of the Greek population – often the more vulnerable people – were not always acknowledged in Germany and some other countries.

I am often asked why it took eight years and three adjustment programmes for Greece, while Ireland, Portugal, and Cyprus managed to regain market access in three years, with just one programme each. There are several reasons. First, the extent of the problems in Greece was much bigger than elsewhere. Also, the administration and its ability to implement reforms agreed under the programmes was much weaker. And finally, Greece interrupted and reversed reforms during the first half of 2015. The estimated price tag for this episode varies from €86 billion to €200 billion.

In the beginning, the main task of the rescue funds was to provide money. We heavily relied on the IMF and its experience in resolving crises of more than six decades. But since 2015, the ESM's role has evolved into a full participant in designing and monitoring the programmes, together with the European Commission, the ECB, and the IMF. What was first a troika, became a quartet. Despite occasional differences of opinion, cooperation was good. Experience taught us that we could also always rely upon our most important Greek interlocutors, Finance Minister Euclid Tsakalotos and his deputy George Chouliarakis.

With the Greek programme, we developed a European crisis resolution framework that differs from that of the IMF. The IMF grants crisis loans to Greece for a period of 10 years, with interest rates of around 4%. This is very different to the loans granted by the euro rescue funds. The €204 billion in ESM and EFSF loans to Greece have maturities that reach many decades into the future. Interest rates are essentially the same as what we pay investors on our bonds, and are currently around 1%. For these reasons, the IMF's approach to debt sustainability – which looks at the stock of debt to gross domestic product (GDP) ratio over a 10-year horizon – must be supplemented when looking at a country like Greece. One also needs to look at Greece's gross financing needs, the sum of annual interest and redemption payments. Historic evidence shows that it is crucial to ensure that these stay below a threshold of 15 to 20% of GDP over the long term.

Over the course of eight years, Greece has received an unparalleled amount of support from its private and public sector partners. The private sector involvement of 2012 reduced Greece's debt owed to private investors by more than €100 billion. It was the biggest haircut in world history. The advantageous loan conditions of the EFSF and ESM, with long maturities and interest deferrals, allow Greece to save around € 12 billion per year in debt service costs, the equivalent of 6.7% of GDP every year. We expect the short-term debt relief measures, which the ESM granted in January 2017, to reduce Greece's debt-to-GDP ratio by 25 percentage points, and the gross financing needs by six percentage points by 2060. The medium-term measures, which we expect to decide and implement after the summer, should reduce these two ratios by another 30 percentage points and eight percentage points respectively. Some in Greece underestimate the amount of political capital a number of euro area governments had to invest to convince their voters and parliaments that these efforts for Greece were also in their own self-interest.

As Greece is now moving towards financial independence, I am confident about its future. Greece is well on the way towards becoming a sustainable and competitive economy, provided it continues to modernise and open its economy. I trust that this will be the case. Both the prime minister and the leader of the main opposition party are reform-minded and have reassured me that they support the objectives of the ESM programme.

The ESM will be Greece's long-term partner. Our interests are aligned. We want the country to be successful, not only because we wish to have strong partner in Greece, but also because we want it to pay back our loans. The ESM will work together with Greece until the last loan has been fully repaid. All euro area partners stand side by side with the Greeks. In its June statement about Greece, the Eurogroup said that it stands ready to assist the country further in case unexpectedly adverse developments threaten the country's future. This long-term commitment for Greece, together with all the support and relief measures of the past eight years is why I think it is justified to say Europe engaged in the biggest act of solidarity the world has ever seen.

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