Greece's economy: fulfilling expectations after the election? - speech by Klaus Regling

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"Greece's economy: fulfilling expectations after the election?"
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(Please check against delivery)

Dear Ladies and Gentlemen,

Dear Pavlos Mylonas,

Dear Minister Staikouras, congratulations for your appointment as finance minister.

I am happy to be here at the start of your time in office. Together with my colleagues at the ESM, I look forward to a constructive collaboration – based on trust, commitment and ownership – with you and the new Greek government. The meeting yesterday with minister Staikouras was a very good start.

Greece matters to us. We see ourselves as the country's long-term partner. It is our priority that Greece gets firmly onto a path of strong long-term growth and sustainable debt. Not only because the ESM is the largest creditor of Greece, with our loans which run for more than 40 years. But also for the Greek citizens.

I believe we can all embrace this goal looking forward.

The Greek citizens experienced many years of hardship and felt the sometimes painful reforms in their everyday lives. We should not forget that.

But as a result of the reforms, Greece is today in a better place than at the beginning of the crisis. Real GDP is projected to grow a bit more than 2% in 2019 and in 2020. Greece has a substantial cash buffer, unemployment is falling, and interest rates in the secondary market are very low.

Fiscal targets have been met over the past four years. This is good news. The targets have been even exceeded. The general government primary balance in programme terms last year registered a surplus of 4.3% of GDP, strongly over-performing the fiscal target of 3.5% of GDP. Any fiscal space should be now used in my view for growth-friendly measures, including productive expenditures.

Last August, Greece exited its ESM programme after eight years of economic adjustment. Greece implemented substantial and painful reforms to restore sustainability of public finances, strengthen the banking sector's resilience, and improve the economy's competitiveness. In total, Greece received almost €290 billion in financial support, of which €205 billion came from the EFSF and the ESM. On top of that there is extensive debt relief.

The ESM offers extremely favourable loan conditions with long maturities and low interest rates. We essentially pass on the financial benefit from our high creditworthiness to beneficiary member states. In addition, the ESM granted long grace periods of up to ten years after the programme.

For Greece the maximum weighted average maturity of loan tranches was extended to 42.5 years, and interest and principal repayments were deferred for up to 20 years.

In the case of Greece, we estimate that the favourable lending conditions of the EFSF and the ESM compared to hypothetical market financing save the Greek budget €13 billion each year. This is around 7% of GDP.

Turning from the present and past to the future, this leads me to the title of this session: “Greece’s economy - fulfilling expectations after the elections”? Clearly, a new government brings the opportunity to present new priorities.

In this sense, the reform drive of the new government to stimulate the business environment and investment climate is welcome. Although the government has just been elected and details remain to be seen, what is currently known seems promising to the extent that the country respects the established surveillance framework and its programme commitments.

Let me outline some policy orientations that I consider to be of particular importance going forward:

I believe Greece should make growth its top priority while at the same time maintaining the agreed primary surplus and fostering fairness across society. The fiscal surplus is – together with growth – the necessary condition for debt sustainability. Given this overarching objective of “promoting growth”, I would like to advocate the following four more detailed policy lines:

- First on structural reforms: reforms already implemented during the adjustment programmes, such as the labour market reform, should not be reversed. For example, increases in the minimum wage should be in line with productivity developments to maintain competitiveness.
- Further structural reforms are necessary to improve productivity and competitiveness. This is particularly important given the poor demographic outlook for Greece. To strengthen productivity requires reforms to make the economic environment more business friendly, reduce the time needed to resolve legal disputes, and further improve the effectiveness of public administration.
- Second: continue with privatisations and support the improved management of state assets. This is critical to building an effective corporate governance culture in Greece, and to attracting both foreign and domestic investment.
- Third on banking: the resilience of the banking sector needs to be safeguarded in order to improve financing conditions and support growth. Greece needs a stable and profitable banking sector to support firms and households.

- Fourth on fiscal policies: Any rebalancing of fiscal policies should be targeted to foster growth while safeguarding the achievement of the agreed primary surplus. A reduction in tax rates, for example, could be coupled with a broader tax base. Also, available fiscal room should be used for productive expenditures, such as public investment.
- More broadly, policy measures should consider fairness across society. For example, social benefits should be targeted at the disadvantaged like the young and working age population, where the risk of poverty is high.

During the last months, concerns related to structural reforms and fiscal policy have been voiced. The Commission presented the 3rd Enhanced Surveillance Report, which assesses the ongoing implementation of reforms. The ESM agrees with those conclusions.

The report concludes that reform implementation has slowed in recent months, and the consistency of some policy measures with commitments given to the European partners was not assured.

Some of these decisions are likely to have negative consequences on growth – backtracking on past reforms and deciding on new spending increases, while arrears are still higher than expected.

To support growth and debt sustainability, the commitment to stick to the agreed reform path beyond the end of the programme is essential.

We are looking forward to working together with the Greek government on this common goal.

Thank you.

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