

Rolf Strauch in interview with Naftemporiki

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**Interview with Rolf Strauch, ESM
Chief Economist**

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Naftemporiki: On Monday the Eurogroup will discuss the Post-Programme Surveillance report for Greece. The ESM participated in the context of its Early Warning System. Are your conclusions consistent with the Commission's assessment? Do you think that the Eurogroup will approve the debt relief measures valued at €6 billion?

Greece had a strong recovery from the pandemic last year and has also withstood the energy-price shock this year better than most of its euro area peers. Greece's solid economic performance over the past two years bears witness to the success of the reforms Greek authorities put forward in the years before.

It is for the 19 euro Finance Ministers to approve the assessment of Greece's development. I am hopeful that they will echo the report's preliminary conclusion.

This marks a turning point in Greece's recent history with the end of the deep monitoring by the European institutions. If approved, the debt relief measures total €6 billion. Of that, about €600 million refer to the transfer of income from central banks' holdings of Greek government bonds (SNP/ANFA), and €5.2 billion is the reduction to zero of that step-up margin for a specific loan from the EFSF from now on. This step-up margin was put in place to give Greece an incentive to pursue reforms, and Greece has risen to this

challenge. This debt relief will continue to benefit Greece in the years to come.^[1]

The Greek economy, based on the forecasts, will continue to grow in 2022 and in 2023. In the PPS report, the Commission recommends the measures provided by the Government be more targeted. What is the position of the ESM? What should the Greek government pay attention to?

The **energy support** government measures helped the Greek people and shielded them from the impact of the energy price shock; Greece kept its strong growth momentum and is on track for one of the largest debt reductions in a single year in the history of the euro area.

Looking ahead, measures should be targeted to the most vulnerable. It is especially important for Greece to continue a sound fiscal path that will help it grow in the long run. This is decisive for debt sustainability.

In December, we expect the ECB to decide a further increase in interest rates. The upward trend is expected to continue in 2023. How possible is it to see an increase in NPL's, especially in Greece?

We don't see concerning signs of a deterioration in banks' loan books yet. However, banks should remain vigilant. Increased interest costs may stretch borrowers' repayment capacity and banks' funding costs and we expect this to lead to some increase in NPLs forward looking.

Banks are better capitalised now. The financial sector reforms in recent years improved banks' governance and independence and strengthened their risk management. This should help banks manage a new surge of NPLs.

Recently the European Commission presented its proposal to change the fiscal rules. Do you think the proposal goes in the right direction? Will the highly indebted countries be able to safeguard growth?

The proposal by the European Commission aims to make the EU fiscal rules simpler when assessing and calculating the “benchmarks” for debt and deficit of the EU fiscal rules.

And it is important that the rules focus on debt sustainability. Countries with high debt levels need to commit to a debt reduction path without endangering growth.

The Commission made a good attempt to increase ownership, which should decrease the need for enforcement and increase implementation.

Greece has set a goal to return to the investment grade in 2023. What do you think needs to be done in the coming months from the Greek side to achieve this?

For credit rating agencies the fiscal situation and debt sustainability of a country matter for their ratings. When assessing if the debt is sustainable, the fiscal path, and the implementation of reforms are important because they strengthen growth in the future. Rating agencies have looked favourably at the recent Greek developments, but the government needs to pursue a prudent path to be successful.

Footnotes

[1] Post-Programme Surveillance Report (2022):

https://www.esm.europa.eu/system/files/document/2022-11/ip191_en.pdf (June 2022).

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