Rolf Strauch interviewed by To Vima (Greece)

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Interviews

Interview with Rolf Strauch, ESM Chief Economist
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To Vima: The ECB might embark on an interest rate reduction, but still monetary policy will remain tight at a time when fiscal policy is expected to be tighter. At the same time there is a need to increase spending, especially on defence. What consequences do you see?

Rolf Strauch: There are signs that monetary policy can loosen, but the timing and the pace will be determined by inflationary developments. Several countries came out of the Covid-19 pandemic and the cost-of-living crisis with higher debt. Some also have high deficits. Countries need to create fiscal space to deal with future shocks, keep inflation down, and reassure markets' expectations for countries with high deficits and debt.

Those facing higher debt levels and deficits will need to make an extra effort to consolidate, building buffers for unexpected shocks and future challenges. The focus however should be on cutting less productive expenditures, not investment. We must keep resources for investment in the future, while cutting down on support measures implemented during the recent cost-of-living crisis that have become unnecessary.

But still the financing needs to address future challenges are considerable; would it be possible to build at the same time more fiscal space?

The euro area has shown great resilience facing the crises in the last few years, also due to the right policy measures. But growth is still weak, and Europe, as an open economy, is more exposed to the global economy than the US. This makes the region more vulnerable to shocks, as the global geopolitical environment remains uncertain.

We face three major future challenges: demographics, ageing related costs - which is also an issue for Greece - geoeconomic fragmentation, and climate change. Addressing these challenges requires the right policy mix, with countries focusing on structural reforms.

At the European level, we need to build on the single market. Further integration, particularly in the areas of finance and energy is key. The IMF has calculated that a fully-fledged single market would increase Europe's GDP by about 7 percentage points. An integrated capital market will be key in boosting investment and enabling countries to make their economies greener and more digital. Private investment is even more important as countries are fiscally constrained.

Would Europe need to issue more common debt to meet additional financing needs, especially in defence?

The issue is broader than defence. How to make Europe fit for the future? How to address these long-term challenges? And in that context, what role can the European institutions play? The European Commission's Next Generation EU will be fully running up to 2026. The most important, at this stage, is to use these resources as much as possible. This is true for Greece as well. Beyond this, we should make an efficient use of all European resources available. That also includes the European Stability Mechanism.

The ESM is the euro area's permanent crisis resolution mechanism of the euro area. Its mandate is to preserve financial stability and it will be there after 2026. We are currently discussing with our member states what can be our role in helping countries address future challenges that may emerge from climate disasters or other shocks, such as geoeconomic shocks.

It is crucial that we get the final ratification of the revised ESM Treaty done, because part of the financial infrastructure and the backbone for banking union is the backstop to the Single Resolution Fund, which the ESM is set to provide in case of bank failures.

Could the ESM, then, help with defence financing?

Within the ESM's mandate, we can help countries when financial stability is at risk. If this is related to a situation of geoeconomic conflict, we have instruments to help countries. Can the ESM finance defence investment more generally? That is not currently foreseen.

There is optimism about Greece's progress, but there are still issues. What is your view?

Greece has made remarkable progress to address past problems, even more so, in a very difficult environment. In the past three years, economic growth in Greece exceeded the euro area average, while unemployment has declined to the lowest level since 2009. Budget surpluses are among the highest in the euro area. This has helped Greece reduce its high public debt ratio, from above 200% of GDP to around 160% this year. Economic developments and inflation helped bring down debt, but that alone would not have worked without the strong fiscal performance that Greece demonstrated in these years.

More recently, we have seen a few slightly worrying signs. Economic growth and investment slowed down more than expected and unemployment declined somewhat less than we initially thought. This may be in part related to the devastating floods in Thessalia last year, but we have to see if there are other factors at play.

In what areas is there need for more progress?

The most immediate action is to speed up the implementation of the Recovery and Resilience Plan. Second, pushing ahead with the reform agenda, fighting tax evasion, speeding up judicial reforms, and equipping young people with the necessary education and skills to succeed. These are crucial areas.

Reforms in the banking sector and the management of state-owned enterprises must continue. Strong and competitive banks are essential to support economic growth and better-managed state-owned enterprises will improve the quality of services and help create more jobs.

Finally, Greece has a lot of room to boost employment, as its female and youth participation rates in the labour force have long been among the lowest in Europe. Furthermore, the tax wedge is still relatively high, and can be reduced.

All this will help Greece's economic growth and prosperity. That in turn will help public finances and provide governments with more room for manoeuvre to address future challenges, to the benefit of Greek people.

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