# Rolf Strauch in interview with To Vima (Greece)

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**Interview with Rolf Strauch, ESM Chief Economist**
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Interviewer: Angelos Athanasopoulos

*To Vima: On 22 May, the Eurogroup failed to reach a consensual description of the medium-term measures to alleviate Greek debt. Are you worried about the next Eurogroup?*

Rolf Strauch: In my view, there was a fairly good level of consensus and agreement. The progress was based on the fact that Greece and the institutions have agreed on the policy package that is part of the second review. It includes many policy measures to be taken, including some that go beyond the end of the programme. There was also a good discussion on medium-term debt measures on the basis of the Eurogroup statement of May 2016. The measures identified in that statement are still the basis for discussion and they could be made available at the end of the programme in August 2018, if the programme is fully implemented and if they are needed. There is an ongoing debate on how to clarify them. As the President of the Eurogroup said, all expectations and possibilities must be aligned. I believe there is enough goodwill among all who are involved in the discussion to come to a consensus on 15 June. Greece’s best contribution to that discussion is to fully implement the prior actions, which are key. We know that Greece has substantial repayment needs in July; the ESM will be ready to make a disbursement if an agreement is reached. This will create confidence in the markets as well. So there are grounds for reaching an agreement in June.

*In the Eurogroup, the ESM presented a confidential document with its proposals for medium-term measures. Are these scenarios seen autonomously or could there be a combination of these?*

As a matter of principle, we never comment on leaks. But let me give you some context. It was publicly announced that a discussion on a credible strategy for safeguarding Greece's debt sustainability would start. The ESM was asked to examine from a technical point of view the impact of what was agreed in May 2016, particularly with regard to our loan management. This is 'good governance' so as to support an informed debate in the Eurogroup. We examined the parameters, but these are not proposals, they are technical scenarios. The decision lies with the Member States at a later stage.

*One of the ideas that was released concerned a deferral for interest payments of up to 15 years. This concerns the entire amount of ESM loans to Greece – €130 billion – or part of it?*

I have to go back to the May 2016 Eurogroup statement again. This decision included, first, the waiver of the step-up coupon by 200 basis points; second, a possible liability management exercise in the case of public loans if there is unspent money in the ESM programme for Greece; third, the return of profits from SMP and ANFA, and; fourth, the possibility of a deferral of interest and the extension of maturities. These measures can be taken if necessary, although this is a decision to be taken at the end of the programme based on the information we have in August 2018.

*What could be a liability management exercise for public loans?*

This could be about improving the repayment structure. In practice, this would mean that we could use those ESM funds that are not disbursed under the programme to repay other public creditors.

*Could it concern a possible takeover of IMF loans?*

In theory, that could in general also be an option. This is not mentioned in the statement of last May and there is certainly no commitment or decision that the ESM will buy the IMF's share.

*Would you say that the ESM's ideas for medium-term measures have covered the full range of possibilities offered by the May 2016 decision?*

I have to tell you that a lot has already been done. Greece has a tremendous benefit since it already had a debt alleviation that primarily concerned the private sector through the PSI in 2012, which was the largest debt restructuring in modern history and in which the private sector suffered large cuts in nominal present value. This was accompanied by public sector measures that lowered the Greek debt burden and its financing by 40% of Greek GDP in net present value terms through low borrowing costs, grace periods for interest payments, and extended maturities. This should not be forgotten because it implies that Greek debt in terms of payment obligations and refinancing needs is in fact viable for a number of years after the programme.

*Some people note that these interventions have not received the recognition they should have. Do you agree?*

What I can say is that what happened with debt in 2012 was a big sign of European solidarity. We actually pass on to Greece our low financing costs due to the creditworthiness of the ESM. Our top credit rating is backed by the capital contributions of Member States. The advantage that Greece is earning through our own funding compared to market funding amounts to about €10 billion in 2016 alone. This amount corresponds to around 6% of GDP! It is a very large number and creates fiscal space every year from which the people can benefit.

*Would you say that the scenario of locking or stabilising interest rates at current levels has been ruled out?*

Part of the short-term measures envisaged in the May 2016 agreement is the reduction of interest rate risk as part of our strategic loan planning. This is one of the reasons why we have recently issued a number of long-term bonds. We also need to remember that the short-term measures are intended to have a positive impact on the long-term sustainability of Greek debt. We estimated that they will reduce Greek gross financing needs by around five percentage points and the debt-to-GDP level by around 20 percentage points. Therefore, the initiative to stabilise interest rates has not been ruled out. We are implementing it to the extent that markets allow us to. As far as the medium-term measures are concerned, there is also the possibility for a further deferral to repay interest or to set a cap on interest rates, as noted in the May 2016 statement, if needed.

*It is true that there has not been much clarity about the short-term measures. How do they work, what results have they achieved so far, can they be further strengthened?*

The short-term measures include, above all, the smoothing of the Greek debt profile so that it is better structured, allowing for stable refinancing and repayment of loans. Our loans have a maximum average maturity of up to 32.5 years and we use this ‘space’ to improve the Greek repayment profile. A second point is the lifting of the waiver of the step-up coupon for 2017. The direct benefit is €200 million. A third measure on which we are working, and which will take time because it requires market transactions, is the reduction in interest rate risk. We are doing this in the context of our diversified funding strategy without incurring costs for other beneficiary countries. Among other things, we exchange bonds, such as those issued for the recapitalisation of Greek banks which have fluctuating interest rates. We are already doing all of this, but obviously the results take time to show.

*For how many years do you think it is possible for Greece to keep primary surpluses above 3% of GDP?*

One of the conditions set for alleviating the Greek debt in the May 2016 agreement was to achieve primary surpluses of 3.5% of GDP by 2018 and keep to it in the medium term. With Greece exiting the programme, the country will generally have to comply with the European fiscal framework. Then, we can discuss what we mean precisely by ‘medium term’. As an economist, I look at the evidence I can get. Given the experience of European states over the last 30 years, I see that there are several countries, 12 in fact, that have achieved primary surpluses of over 3.5%. Some of them, like Finland, Belgium, and Ireland, have managed to sustain primary surpluses for 20, 16 or 13 years over the past three decades. Keeping high primary surpluses is of course a challenge, but it is not unusual or impossible. There is also evidence that countries with high levels of debt have higher primary surpluses. Having said that, everyone understands that Greece has been going through a profound crisis and that great adjustment has already taken place. Now it is up to Greece to reap the benefits of these reforms in terms of higher growth sustaining sound public finances.

*Do you think that the time has come to turn the ESM into an ESM plus or a European Monetary Fund or to proceed with some sort of debt mutualisation through Eurobonds? The Commission is also presenting a reflection paper on the future of EMU ...*

We will study the Commission document with great interest. The ESM stands ready to contribute to the important debate on how to make the euro area more resilient from our perspective. We believe that the resilience of the eurozone should be strengthened further, even though a lot has already happened in this respect. Strengthening the resilience also means finding a good balance between risk reduction and risk sharing. The completion of Banking Union would be a clear step forward, as would the completion of Capital Markets Union. Both would enhance the capacity of risk sharing through markets. One could think of a limited common fiscal capacity for the eurozone in the longer term. But it is clear that this cannot involve debt mutualisation or permanent fiscal transfers. In our view, Eurobonds are currently neither economically nor politically viable. They require joint support from several Member States – that means debt mutualisation – and constitute an extreme choice from a wider range of options. The main idea is to create a safe asset for the eurozone, like US Treasuries. But there is still a lot of discussion needed here. With regard to the future of the ESM, we are following the debate with interest. We see all suggestions of developing our mandate as a sign of trust in the work of the institution. Such ideas could not be floated if we had not delivered on our tasks. We will see what comes out of this debate and if a consensus can be reached among the ESM Member States. But it is clear that this is about the future - the management of the Greek ESM programme will take place within the existing setting and no one is currently proposing a change of course.

## Author

Rolf Strauch
Chief Economist and Management Board Member

# Contacts

Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu