Rolf Strauch in interview with Expansión

View PDF
05/06/2017
Interviews
ESM
Madrid, Spain
Interview with Rolf Strauch
Chief Economist, ESM
Expansión (Spain) 5 June 2017
Interviewer: Pablo Cerezal

Expansión: Despite economic growth in Spain, the public debt is still around 100% of GDP. Do you think the country is still at risk?

Rolf Strauch: I do not see a risk at all. Spain is clearly an example of the successes of ESM programmes. Five years ago Spain was a country in crisis, now it is one of strongest growth performers in the euro area. When Spain entered the program, it rescued and restructured the banking sector, including the transfer of bad loans to the government. Now the financial system is more solid and can support the economy. In parallel, the government implemented structural reforms and fiscal consolidation. These structural measures are responsible for this higher than average growth. In addition, Spain is already repaying its ESM loan ahead of schedule, which is another clear sign of normalisation. This does not mean, of course, that the country can rest on its laurels. It must continue with reforms and with reducing the deficit. That is why we appreciate the willingness of the government to comply with the requirements of the European fiscal framework.

What reforms are missing?

We believe that following the specific recommendations of the European Commission and the European Council for the country would greatly help to further widen the basis for growth. Apart from fiscal measures, there is also a need to improve the functioning of the labour market, namely through active employment policies to further reduce the unemployment rate. In addition, progress is needed in harmonizing the internal market to raise potential growth.

What if these reforms are not implemented? President Mariano Rajoy has already admitted that it will be difficult to continue the reform path of the last years...

Spain has created a solid base for growth with the reforms of the last years and is now reaping the benefits. I do not see a reason to end this reform path.

And the Eurozone as a whole? What would happen if it faced the next crisis with the current levels of debt?

Europe is recovering and now with a broader and more solid base, so there is no need to speculate about a possible crisis. In a recession, debt tends to growth mechanically as a result of automatic stabilizers. From this point of view, getting out of the crisis with higher debt than before the crisis is not really surprising. But now we are recovering and the critical task now is to create enough fiscal space to prepare for possible crises that will come in the future. One of the lessons of the crisis is that this buffer was not large enough, so countries should do everything possible to accelerate the downward trend in debt. Less debt also means lower interest payments in the budget and a lower debt burden for future generations.

You talk about solid growth, but you don’t mention the word strong. Will we see rates of GDP growth substantially above 2% per year?

In assessing growth you need to be clear and realistic. What we see today - and this is confirmed by international institutions - is that the recovery has a broad base and can be expected to last. In the previous three years of recovery, growth was above potential. This is very reassuring. Obviously, the way to achieve greater growth is to implement structural reforms and, as the population cannot be boosted in the short term, the main instrument to increase growth is investment and higher productivity.

How does the Juncker Plan fit into this context?

The so-called Juncker Plan will certainly make a positive contribution to European GDP. Overall, more is needed to make real progress on growth than the Juncker Plan itself. It should be part of a broader strategy of structural reforms to facilitate investment and a true common market for investment.

How do we know that we are not in a phase of unsustained recovery, as happened between 2010 and 2011?

The difference is that the growth of domestic demand is strong and, in addition, is very widely supported. All regions of the world are growing and global trade is also rebounding. This creates a positive dynamic.

How do you see the situation in Greece after the lack of agreement at the last Eurogroup?

We made good progress in the last Eurogroup. Greece agreed to a very impressive reform package of 140 measures. This closes the second review of the ESM programme and Greece is now implementing these reforms. As we have stated earlier, this could pave the way to a discussion over a credible strategy to assure that Greek debt is sustainable so that the IMF can conclude its own programme for Greece. We had a good first discussion but no conclusion yet. In any case, any potential debt relief decision will only be taken in August 2018, after Greece has successfully concluded its ESM programme. The Europeans have shown in the past that they are ready to contribute to Greece's debt sustainability. Overall, the beneficial terms already offered to Greece are equivalent to a reduction of 40% of Greek public debt held by its European lenders. These are very substantial savings for Greece, and they implied no additional cost for the European taxpayer. All decisions to unlock the disbursement can still be taken in June after the next Eurogroup, but we need to act swiftly.

Do you think that any additional support measures might be necessary for Athens?

Europeans have already made a great effort to contribute to the sustainability of the Greek public debt. Many measures adopted in previous years provided ample fiscal space to the country. Our beneficial lending terms when compared to market financing generate savings of up to 6% of GDP in 2016, which has contributed greatly to debt sustainability. But there are new measures that could be implemented, if necessary and if Greece fully complies with the programme. These include a further deferral of interest rates and extending the maturity of the loans.

When will the country return to markets?

The programme is designed to enable the country to return to the markets, restore credibility with investors and return to normal. The goal is that the country's weaknesses will be overcome. The programme now is not focused on designing new measures, but on implementing them. If Greece restores credibility through its reforms, Greece will have many opportunities to return to the market. It is not for us to decide when they will return to the market, but for the Greek government. When they are clear that the situation is good enough, then they will begin to take steps in that direction. Careful preparation is always needed, but especially in the case of Greece, since the investor base must be organized.

How do you see the future of the ESM after the crisis? And how do you see the Commission proposals to reinforce the euro area?

There is an open debate on how to deepen the euro area and there is a large number of proposals that imply a strengthening of the ESM mandate. These include the possibility of creating a European IMF, a European Treasury and becoming a backstop for the Single Resolution Mechanism as part of the completion of the Banking Union. The ESM already provides a common backstop for sovereigns, which is also a function of the IMF globally.

The Commission has made an important contribution to this debate exploring avenues to strengthen the euro area. The institutional architecture of the euro area has already been strengthened during the crisis, but the Commission is right in pointing out that the resilience of the euro area should be further improved by the right mix of risk sharing and risk reduction. Completing Banking Union will strengthen such resilience. It should be complemented with the Capital Markets Union that will help increase private risk sharing. A macroeconomic stabilisation function without debt mutualisation or permanent transfers can be envisaged in the longer run.

We follow all the discussion with interest. So far, nothing is decided. At the ESM, we certainly see all mentions to potential future ESM tasks as a sign of confidence in our work so far. But these are matters for the future, since there is no intention to change the legal framework of the ESM before the conclusion of the third programme for Greece. We are quite busy with our mandate as it stands.

Author

rolf-strauch-profile-sq
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