Klaus Regling at the Economist Roundtable

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Speeches
Athens, Greece

Klaus Regling, ESM Managing Director
The Economist 21st Roundtable with the Government of Greece
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Ladies and gentlemen,

The news about Greece and Europe has been positive in the past few months. Let me begin with Europe. I have often said that Europe has come out of the crisis stronger than before. This is now finally being recognized more widely. An important part of my job is to speak to investors all over the world. Today, they are increasingly telling me that Europe has turned a corner. That is a big shift from only a few months ago, when the sentiment was much more gloomy.
At the end of last year, the perception was that a series of elections could trigger an unravelling of European integration. Instead, the votes in Austria, the Netherlands and France showed that political support for Europe is strong. Of course, populism has not gone away. Europe will need to keep this in mind now that it has received a renewed mandate to build on its past successes. We are likely to enter a period of political stability, in contrast to other regions in the world. Investors are focusing on Europe’s healthy economy again. Euro area growth was 1.8 percent in 2016, better than the U.S. growth rate. This year, the number is expected to be similar, the fourth

year of uninterrupted growth. These are solid data, above the potential growth rate for the region. And so, unemployment keeps dropping, albeit from high levels.

The heading for this panel mentions - and I quote - “anti-austerity”. I prefer to use the expression “fiscal responsibility”. Fiscal responsibility is essential for the smooth functioning of the monetary union and was laid down in the Maastricht Treaty and the Stability and Growth Pact. Large fiscal deficits should be avoided. Together with high debt levels, these deficits were an important factor that led to the euro debt crisis, and to the loss of market access for countries like Greece. It is a misunderstanding that sustainable economic growth can be generated just by running large budget deficits. Equally, a solid budget doesn’t mean a country cannot also have solid growth, as Finland and the Netherlands show.
In the aggregate, the euro area has reduced its fiscal deficit to 1.5 percent of GDP, half or one-third of the number in the U.S. or Japan. This is a sign of fiscal responsibility, and I would say the suggestion by the organisers that there is an anti-austerity climate in Europe is wrong. Nor are we in an austerity climate. Nevertheless, I do understand anti-austerity sentiments. After all, nobody likes it when government wages, pensions or services are cut and taxes rise. But often – such as with the ESM programme countries – it is unavoidable to reduce fiscal and current account deficits and to regain competitiveness, to bring an economy back on a sustainable path. The approach works, as the former ESM programme countries show. They are all reform champions, according to World Bank and OECD. Therefore, they have solid growth: Ireland was the fastest growing euro area country in 2016, and Spain, Portugal and Cyprus are also doing well. That is a substantial reward that countries - and their citizens - get for fiscal responsibility and structural reforms.

Now let me turn to Greece. The timing of this conference is – again - fortunate. Last year I spoke here just a day after the ESM disbursed €7.5 billion to Greece. Next week the ESM is expected to start paying the next tranche of €8.5 billion. This payment was conditional on Greece completing an impressive reform package, which comes on top of what it has already done over the past years. Although the second review was again concluded much later than scheduled, the Greek people and the Greek government can be commended for this hard work. If the government sticks to the agreed reforms, Greece can become the next success story of the ESM.

Most of all, this is good news for the Greek people, who have suffered many years of salary and pension cuts. This was a painful experience and – initially – negative for growth. But the adaptation was unavoidable, and a consequence of past policy mistakes. In 2009, the Greek deficit stood at 15.1 percent and the competitiveness of the economy had seriously deteriorated: the current account deficit was almost 18 percent of GDP. Greece’s European partners were ready to provide financial support to the country. But it was equally clear that this enormous budget deficit had to disappear, and that competitiveness had to be regained, if Greece wanted to stay in the euro area.

In return, Greece received meaningful solidarity from its European partners. We have disbursed €175 billion to Greece already. This saves the Greek budget €10 billion each year because of the low lending costs of the ESM. This amounts to 5.6 percent of GDP, and allows Greece the breathing space to return to fiscal responsibility, healthy economic developments and debt sustainability.

In Greece, with the measures adopted by Parliament last month, this process of fiscal adjustment is now complete. It is impressive to see that the country had a budget surplus of 0.7 percent in 2016. That is not to say that Greece’s economic transformation is now complete. Plenty of work remains to be done during the rest of programme, and once Greece has exited. But the focus will no longer be on budget cuts or austerity, and instead on raising potential growth. More work is required on improving the financial sector, on reforming the public administrations, on privatisations – especially on the functioning of the privatisation fund, the HCAP – and on further liberalising product markets and closed professions.

If this work continues, I fully expect Greece to be able to win back investor confidence and return to the market before the end of its programme this year or the next. This is an achievable goal, as we know, because Greece did it during the previous programme. In 2014, it sold bonds on two occasions, before the unfortunate reversal of the reform process early in 2015. This delayed Greece’s recovery by several years, and cost the country large sums of money. But the important point I want to make is that Greece will be able to convince investors again, as long as reforms continue.

Once Greece is able to stand on its own two feet again, the ESM will not walk away. As its largest creditor by far, it is also in our interest to see the country doing well. The possible medium and long-term measures for debt relief that the Eurogroup has pledged show that Greece’s European partners care about Greece’s long-term prospects. Both Europe and Greece went through difficult adaptation processes in the past decade after the crisis. This was not easy anywhere in Europe. And that is why the recent positive news about Europe and Greece is so welcome.

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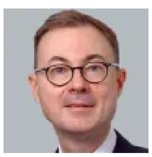

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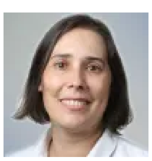

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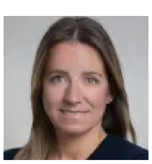

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