# Pierre Gramegna in interview with Kathimerini (Greece)

**Interview with ESM Managing Director Pierre Gramegna**
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**Kathimerini: Greece is making an early repayment - of almost €8 billion - of the first bilateral loan it received from euro area countries through the Greek Loan Facility (GLF) in 2010. What does this move mean and how does it help the Greek economy?**

Pierre Gramegna: Primarily, the early repayment is a sign of economic strength. It shows that Greece has improved its financial situation, has room for manoeuvre and has reserves. It is good news. And this should not surprise us, because if you look at the country's economic results, they have been consistently strong over the last three years. The numbers speak for themselves. Economic growth since 2022 has been about twice as fast as the average of the euro area, corresponding to an outperformance of about 5 percentage points. Unemployment rates have also halved in the last five years. Greece's current financial strength is the result of these much-improved economic conditions.

The government's plan to repay the GLF - which is the first loan that was given to Greece, consisting of bilateral loans from 14 euro area countries – will generate some savings. Most importantly, a smooth profile of financing needs makes Greece more resilient to deal with any other shocks in the future.

However, the repayment can only be done after the European Stability Mechanism (ESM) and the European Financial Stability Fund (EFSF) - which hold about 54% of Greek government debt – waive their right to also be proportionally repaid early. That was granted by the ESM and EFSF's Board of Directors on 28 November.

**Do you also approve of the Greek government's decision to use part of the cash buffer for this?**

Yes. Part of the early repayment of the GLF will come from the cash buffer that the ESM created at the end of the adjustment programmes. The government will use €5 billion out of a total of €15.7 billion. The aim of the cash buffer was to reassure financial markets at the time that Greece would have sufficient liquidity to service its debt. In that way, the cash buffer underpinned Greece's ability to access financial markets in the post-programme period. Now that Greece enjoys regular market access at good market conditions for several years, the cash buffer has fulfilled its core purpose. Even after using part of the cash reserves, there is still a comfortable remaining cushion.

**The Board also approved the merger of the Hellenic Financial Stability Fund (HFSF) with the Hellenic Capital Asset Protection Fund (HCAP). What does this mean for the Greek economy, what are the next steps?**

HFSF was established in 2010 to maintain the stability of the Greek banking sector. It has recapitalised several systemic Greek banks, using loans provided to the Greek government by the EFSF and ESM. Following the partial divestment and monetisation in National Bank of Greece, the HFSF has now effectively completed its main purpose and role.

HCAP was created to professionally manage and unlock value in Greece’s vast portfolio of state-owned enterprises.

Merging the two is an initiative of the Greek government that we support and comes at the right time, fostering Greece's efforts in enhancing long-term economic growth.

**As one of the most experienced finance ministers in the eurozone, you participated in several Eurogroup meetings during the Greek crisis. How do you assess the performance of the Greek economy?**

I remember participating in the Eurogroup from 2014 to the end of 2021. I haven't counted all the meetings. During the euro debt crisis, we met so often.
It is good news that those times are now behind us, and it is also good news that the negative comments from when the programmes being agreed with Greece have been proven wrong. Some people were saying that because the restrictions were too heavy, Greece would never recover and that it would not be able to repay the loans.

Today we talk about early repayments. What better way to prove that nothing they predicted happened? This also proves that the structural reforms are paying off. Does this mean that the country is now ‘out of the woods’ in the medium or long term? It would be unwise to say so.

**What are your concerns?**

There are two main concerns. One is the medium and long-term challenges that all European economies face, including Greece, such as geoeconomic and geopolitical "fragmentation", which is reflected in a decline of globalisation and the possible trade restrictions.

Russia's aggressive war in Ukraine has shown how fragile Europe is vis-à-vis energy issues. Energy costs are almost three times as much in Europe as in the US, which obviously has a dramatic impact on competitiveness – and has been an issue before. At the same time, there is also the need to increase defence spending, but this should not affect Greece as they are already well above the 2% foreseen in NATO.

As for trade - partly because of the election of the new president in the US, but also because of trade disputes around the globe - Europe will be 'hit' harder than any other region in the world. For Europe, trade amounts to around 60% of GDP. For China it is around 35% and for the US it is 25%. So, Europe is the world "champion" in exports, but obviously if there is a slowdown in globalisation, increase in tariffs, barriers to trade, Europe will be "hit" harder, and Greece will be no exception. These "megatrends", among which demographics and climate change, could affect growth in the medium to long run.

For Greece in particular, although growth rates have been really convincing over the last two years, and unemployment has declined significantly, productivity remains much lower than the EU and euro area average. There is a productivity 'gap' that needs to be closed.

There is also the need to continue the justice reform and promote an education system that is more appropriate in an ever-changing world to ensure new, well-paid jobs for young people and women. Greece now has a unique window of opportunity to press ahead and lay the foundation for long-term prosperity.

**What about investment? The economic outlook, especially for investment, once the Recovery and Resilience Facility (RRF) is completed is not so optimistic. How could Greece boost growth?**

You mentioned the RRF, which is indeed very important. An extraordinary act of solidarity by all European Member States, in the 'aftermath' of the pandemic.

My first piece of advice is to use these funds in the most efficient way possible to ensure that Greece can grow on its own terms after the RRF expires. It is a path to follow in the future. Why? Because these funds are geared towards investments for the climate and digital transitions, two areas where investment needs to increase.

Once the NextGenerationEU recovery plan is completed and the inflow of funds from the RRF stops, these are the areas that will still need public investment. Obviously, you will need to attract private investment as well. This is the "recipe" for success: invest in green and digital and lay the foundation for more growth tomorrow.

**The early debt repayment may signal a fiscal recovery for Greece, but at the same time ordinary citizens will continue to face high costs of living and housing, as well as low wages. What is causing this contrast and how could these negative trends be better addressed?**

This issue is not unique to Greece. Unfortunately, the rise in inflation has not been fully offset in most countries. The same is true for housing costs, each country thinks it is its own problem. Unfortunately, it is happening in several countries, and it is not making it easier for people. At the same time, however, it shows that the problems are not due to national political decisions.

I can understand why someone might not see it as a ‘consolation’ that these problems exist elsewhere, but Greece is fortunately in a situation where the economy is growing relatively fast, and many more people are now working - many of whom did not have a job before – increasing purchasing power for this part of the population.

The priority for all EU countries should be to have the highest possible public investment that crowds in private investment into the areas of the economy that can generate more growth and jobs with higher wages. There are no miracle solutions.

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