“Greece: economic growth and debt sustainability” - speech by Klaus Regling

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“Greece: economic growth and debt sustainability”
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(*Please check against delivery*)

Ladies and gentlemen,

Greece has travelled a long road to recover from the damage of the crisis in 2009 and to correct the imbalances that triggered it. If all goes well, it will no longer need financial help from its euro area partners soon. But the journey is not over - far from it. Becoming a modern, competitive and resilient economy will take more time, well beyond the end of the ESM programme.

This is my most important message today. And as I am speaking at two separate panels, I am getting a chance to say it twice.

Greece can only really convince markets that it has turned the page if it continues to build an efficiently run modern economy that creates higher standards of living for each of its citizens. At the next panel, in two hours from now, I will go into more detail of what is needed for Greece after the current programme ends.

But this current panel is about a different topic: that of debt sustainability. We all agree that Greece’s debt needs to be manageable. But additional debt relief is not the most important thing that needs to happen to achieve that. What Greece needs in the first place is growth, continued reform, and a business-friendly economy, with an efficient public administration.

I am saying this with a particular interest, because the EFSF and ESM are Greece’s largest creditors by far. Together, we hold more than half of its public debt. So it is very important for us that Greece thrives and pays back its loans. Greece’s creditors have made substantial efforts in the past to make this possible, and will continue to do so.

But before talking about possible debt relief measures in the future, let me remind you of the debt relief that Greece already received in the past. In 2012, the private sector took a 54% haircut on virtually all its debt holdings. Public creditors do not allow a nominal haircut, but provided debt relief through easing lending conditions. This amounts to a reduction of the Net Present Value of Greece’s debt of 40 percent. Our lending conditions are very favourable. The interest rate we charge to programme countries is just above 1 percent, the same as what we pay on our bonds in markets. For Greece, interest payments are very small until 2022, as they have been deferred. The average loan maturity for Greece is 32.5 years, and it will pay back the last euro to the EFSF/ESM in 2059 – 41 years from now. These favourable lending conditions represent a substantial net saving for the Greek budget of around €10 billion every year, which is close to 6 percent of GDP.

In May of 2016, the Eurogroup laid out a roadmap for more debt relief. They promised measures that would be implemented in the short, the medium and the long term. At the ESM, we put the first set of measures in place last year. These lower the risk that a rise in interest rates will mean higher costs for Greece in the future. The ESM has executed a number of complex financial transactions to make this happen, such as derivative contracts and a bond exchange. This package will reduce the country’s debt-to-GDP ratio by about 25 percentage points by 2060, and Greece’s gross financing needs-to-GDP ratio by around six percentage points. Or to put it more simply, a future generation of Greeks will have to pay billions of euros less to service their country’s public debt.

In the coming months, euro area finance ministers will look whether Greece needs more relief to ensure the sustainability of its debt stock. These are the medium-term measures, and they may concern maturity extensions, the waiver of certain extra interest payments on a portion of the EFSF loans, as well as redistributing profits from Greek bonds held by the ECB back to the country. The Eurogroup statement is very precise on what can be done, although we don’t know yet if these measures will be needed at the end of the programme, nor how much will be necessary.

Importantly, Greece needs to deliver on the promises it has made to continue reforming its economy even after the end of the programme in August. One of the agreed benchmarks is keeping a fiscal surplus of 3.5 percent of GDP until 2022. To that end, growth is of the essence. The medium-term measures could be linked to a mechanism to define what happens if growth falls short of expectations - or is better than expected. This is in the interest of both sides: after all, creditor countries take on the risks of the loans via the ESM, and they don’t want to take on more than is needed, as this would be hard to explain to voters back home. Such a mechanism will be designed over the coming months, though it is too early to say at the moment what exactly it will look like.

Looking ahead, possible long-term measures will safeguard Greece’s debt sustainability in the even further future. Although this is really more a statement of intention, this confirms that Europe and Greece are long-term partners. This reassurance is highly valuable for Greece, as it gives confidence to its citizens and to markets that the country will not be alone if something unforeseen happens.

In the coming years, Greece can only succeed in modernizing its economy if it continues to make the right policy decisions. It will need a lot of endurance to win the lasting trust of investors and put its economy on a sustainable footing. But Greece is not on its own. Greece is part of Europe, and the source of much of our culture, and our democracy. And so Europe will continue to stand by Greece. And particularly the ESM.

Author

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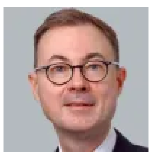

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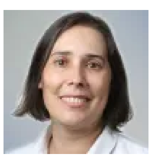

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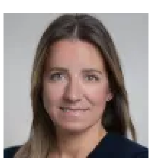

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