“Greece: after the third programme” - speech by Klaus Regling

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“Greece: after the third programme”
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Ladies and gentlemen,

As we meet here, Greece is nearing the end of its third financial assistance programme. It has made good progress: the economy is growing again, competitiveness has returned, exports are rising.

The country has issued bonds on three different occasions. This shows it is slowly regaining investor confidence. It is good that Athens is testing the market before the programme is over, a practice that other countries have also followed.

The yield on Greek 10-year government bonds has dropped dramatically to around 4.3 percent. In recent weeks, all rating agencies have upgraded Greece, Moody's two-notch upgrade being the latest example. These are important results.

On the fiscal side, Greece has equally made impressive progress. In 2009, it had the highest budget deficit in Europe, more than 15% of GDP. Now there is a small surplus. Only very few countries in Europe can say the same.

It is now time to acknowledge this hard work from the Greek government and the Greek people. August, when the programme ends, is not far away. After completion of the third review, parliaments in several euro area countries will approve the next tranche of €6.7 billion. I expect the ESM disburse €5.7 billion later this month. After that, another €1 billion disbursement is planned to clear arrears. If all the conditions are in place, this can happen in May.

The fourth review has started in a very constructive way. We are looking at 88 prior actions. Some tough steps are still ahead. And in the long run, continued progress in strengthening the public administration, further privatisation, a good functioning of the privatisation agency HCAP, reduction of non-performing loans on banks' balance sheets, and avoiding new arrears accumulation are essential.

Let me also stress that while Greece went through this long period of tough reforms, Europe has always been a reliable partner. Since 2015, the ESM disbursed more than €40 billion, out of the €86 billion available in the third programme. Together, the EFSF and ESM have disbursed €182 billion in loans to Greece since 2011, and are holding more than half of the country's debt. To put it another way, two-thirds of all loans granted by the ESM and EFSF were for Greece. The country has always been a special case among the five that have received assistance from their euro area partners. The problems in its economy were much bigger – on the fiscal side, on the trade side and in terms of loss of competitiveness. And so, the size and duration of its financial assistance programmes – the largest the world has ever seen - was bigger as well.

Because of this special status, and because of the huge financial interests that are at stake for Europe, it should be no surprise that Greece will remain a special case, also in the future. It is only legitimate that creditor countries will want to keep an eye on how Greece is implementing the measures it has agreed to. Even after the programme ends, there will be a degree of surveillance by the ESM and other institutions. This, by the way, happens in every country that has left a programme. Surveillance is a logical consequence after ending a programme, and reassures creditors and investors.

Let me briefly say how this will take shape. In the first place, Greece will fall under the surveillance frameworks related to the Stability and Growth Pact and the Macroeconomic Imbalance Procedure, just like every EU member state. This is good, because it shows that Greece has regained its status as a normal country, no different from others. In addition Greece will be subject to the normal EU post-programme monitoring, which will also take place under the ESM early warning system. This assesses if a country is in a position to pay back its loans. Portugal, Spain, Ireland and Cyprus are also all subject to the early warning system, and we regularly visit these countries. If Greece requires additional debt relief measures, the post-programme surveillance may be tightened.

Let me add that the ESM also has a precautionary credit line in its tool box. Today, is too early to decide whether this is needed. In any case, it would be for Greece to formulate a request and for the time being Greece has made it clear that it has no intention to do so.

In short: there will continue to be a strong relationship between Greece and its euro area partners, even after the programme ends. Greece will not have to face its challenges on its own: the ESM will continue to work with the country.

And there will be no shortage of work. Greece should not back down on the reform agenda, or backtrack on its promises. For 2019 and 2020, fundamental pension and tax reforms have already been agreed. On the positive side, if fiscal policy yields the expected strong results, a spending package has been foreseen.

Liberalising the economy, and creating a business-friendly environment must be a constant effort from now on. These are not issues that can be put in place once, and then be forgotten. I find it encouraging that the Greek government is developing its own growth strategy for the future, because sustainable growth is the only way for Greece to deliver more jobs and prosperity for its people. Continuing this journey that has already yielded some first successes for Greece is the only road to build a modern economy that serves the best interests of its people.

Let me conclude. Greece can successfully exit from its programme in August - but only if it continues to implement reforms. It will then join the group of other ESM success stories: Ireland, Spain, Portugal and Cyprus, which have among the highest growth rates in the euro area. If Greece wants to make that a lasting success, it needs to make a long-term commitment to modernise its economy. Greece’s euro area partners will be there to help it achieving that goal.

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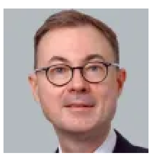

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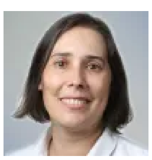

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