

Rolf Strauch in interview with CNBC

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Interviews

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Transcript of interview with Rolf Strauch, ESM Chief Economist

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Interviewers: Geoff Cutmore and Karen Tso

The ESM provided almost €62 billion in support over the course of three years. Rolf Strauch joins us, Chief Economist for the European Stability Mechanism. Rolf, a very good morning to you. It may be the end of the bailout programme, but I don't feel people in Greece will be rushing to pop open the champagne bottles. This is an economy that still has a long way to go, doesn't it, before it gets back to the size it was back in 2009?

Hello, good morning Geoff. Great talking to you. Indeed, it is true that the efforts Greece has to undertake are not over yet. We have to acknowledge though, that there are some successes and if you see what the starting position was I think they have come a long way. If you look at the economy now, it is on the path of recovery, growth is back, unemployment is still high but clearly declining, so that's good. The macroeconomic imbalances are much corrected, they have had an overall surplus last year, and the current account is doing much better. That is to be acknowledged in the first place. Forward looking, obviously, it takes a lot to restructure an economy, and therefore [Greece has agreed] the steps to be taken by the Greek authorities in the coming years and they have made some commitments on that.

The unemployment level is just below 20% still, nearly 11 years after the financial crisis began. Households are weak financially, wages have fallen dramatically which means that both income and taxes paid have fallen. As we reflect on the approach that was taken with Greece, did we get

everything right?

This was a severe crisis situation and obviously it's difficult to claim that everything went well in the sense that everything was completely right at the time. I think the overall direction of the programme was right and what we're seeing now, are particularly the consequences of those many reforms that were taken, and it's true that also the Greek people deserve a lot of respect for what they did over the years. Reforms have the feature that it takes a bit until you see the impact and so the benefits of the reforms weren't occurring right at the start or right from the moment when they were taken, but they are coming in now and I think this process will continue. You should see the projected growth rates, they are about 2%. This is good news, the task is now to stay on course and reap the benefits of what was done in the past.

The question that I have, actually two - is there not some disagreement about the long-term growth potential of Greece and that then has an impact on its ability in the long term to be able to continue to finance its debt? The second question is, that Greece still has not managed to change fundamentally its tax base, where a small number of people pay huge amount of tax and there's still quite a lot of tax evasion effectively going on, which again undermines the long term viability. So the crisis is still possibly out there if the growth is not sustainable and if the tax base is not reformed, would you agree with both of these statements?

From our perspective, we have looked into the growth potential obviously very deeply and have tried also to make very reasonable assumptions about it in our debt sustainability analysis. We think that Greek debt is sustainable and manageable, that's the key point for us. If you look at our debt sustainability analysis, we assume that in the very long run, that taking into account population effects, growth is 1%, and that is a rather conservative estimate from our perspective, so in this regard I think we are pretty much on the safe side. On the tax base, it's important to keep a look on that and follow this, you should see the commitment that Greece has made for the period after the programme, where we will also take a close watch at what Greece will be doing in terms of policy. There's one tax reform that will broaden the tax base, and the second point, is that Greece has made commitments to further strengthen tax administration. So, we will be working with the Greek authorities, or the Greek authorities will be working on this, and we will be closely monitoring this for the years to come.

Rolf, does it worry you that the Greek bond performance is so closely linked to the Italian bond performance? If you look at this year, it feels as if you had a more exaggerated response in Greek bonds versus what you've had in Italy, and do you worry that this could have huge ramifications if there's volatility for investors?

There is obviously a point about market volatility and about contagion that we have to be aware of, and debt markets are alerted - it is a matter of fact and a fact of life for the Greek authorities, but looking at the Greek situation and market rates now, they're still much, much better than how they performed during the crisis and even more recently when the Greeks issued to the market. So from that perspective, I think we are still in a rather reasonable territory in the first place. It is up to the Greek authorities to also convince markets, they know this, and this is what I think, in the long run, will carry the day.

Just as we wrap up the conversation and look forward - what do you think the experience of the crisis should mean for the ESM itself? There has been a lot of talk about shifting the status and focus of the ESM, perhaps even moving forward and introducing a proper fully-fledged euro zone bond to take up some of the heavy lifting that the ESM had to do, Rolf.

I think there are basically two points that can be taken forward or are taken forward. The first point is that the predecessor of the ESM - the EFSF - was initially created as a firewall. From there, the ESM has become what can be called an efficient fire brigade. We have a lot of tools and instruments available that can efficiently help countries when they run into financial problems. The second point is, that at the start of the crisis, indeed, there was support from the IMF needed, and there was no crisis mechanism. In the meantime, ESM has matured and what is currently being decided is that the ESM jointly with the (European) Commission can take a broader role in future crises in managing programmes and supporting financial stability, and that, I think, is the way to go.

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