Rolf Strauch in interview with Athens Municipal Radio (Greece)

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Transcript of interview with Rolf Strauch, ESM Chief Economist
Athens Municipal Radio
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Interviewer: John Papageorgiou

Athens Municipal Radio: Before coming to Greece, I would like to ask you how concerned are you about the slowdown of the projections regarding the Eurozone economy? Do you think that we may enter in a recession circle as well?

Rolf Strauch: On the overall outlook, from my perspective we are moving to a normalisation of growth. It was clear that we cannot expect the high growth that we have seen over the past two years to continue. And it is normal then that growth rates would slow down somewhat. Evidently there are risks. And one important risk would be the escalation of a trade war or trade conflict between the U.S. and China. That would also affect Europe. But at the same time we must see that Europe has gained domestic strength. And the domestic economy can carry us forward. One important factor is job creation and we continue to see that jobs are created. Also as we have more jobs, we see that there is some wage pressure. The combination of the two means that there is more ability to consume and that domestic consumption therefore can be one of the growth drivers forward looking. From that perspective, in my view, indeed we are looking towards a slowdown of growth but to a normalisation and not a recession.

Coming to Greece now, in general, are you satisfied by the country's performance? The good news is that Greece continues to meet its fiscal targets (primary surplus of 3.5% of its GDP). On the other hand, “excessive imbalances” have been identified in the country’s report recently released by the European Commission. Which are the issues and the risks that concern you most?

Now looking at the Greek economy, we first must notice that the Greek economy is growing well. So, the Commission has revised up the forecast for 2019 to 2.2%. That per se is good news; and it also shows that the recovery is working. You yourself mentioned the fact that the fiscal targets could be kept and have been kept. And also that is very important as a confidence building element. There are risks there. We talked before about the external environment that can have consequences for Greece as well; for example for the tourist sector. And one must be aware, for us, this is another reason why it is very important that the government sticks to the reform plan. It is the reforms eventually that will carry growth forward.

Greece exited the last ESM programme after committing to implement a number of reforms. Ahead of the Eurogroup meeting of March 11, it is almost certain that some of these reforms will still be pending. How could this affect a positive decision by the Eurogroup?

At the ESM, we see ourselves as a long-term partner to Greece, and because there will be a long-term involvement with this country. And as such what is key for us is actually the well-being and the growth of this country. Because fundamentally we believe that in the long term, we can only be repaid also if Greece is flourishing. That is our perspective here. And that is why we think that everything that contributes to growth, indeed, should be implemented. Now there are some commitments that are still to be completed. And one of them is the area of arrears. There was a commitment to abolish arrears by the end of the programme. That has not worked. The government is working towards it. More needs to be done. We think it would help the economy and therefore we think that the government should follow up; and there is a commitment to do so.

More has to be done … until 11 March?

There should be more done. Whatever is possible to do to complete and comply with the commitments by 11 March should be done. And then it will be up eventually to the member states to decide how we can move ahead.

You referred to the wage issue, in general, in Europe. The Greek government recently decided to raise the minimum wage by 10.9%. How does this affect the economy and how this can be considered by the country's creditors?

We understand that the government is concerned about minimum wages and that people are concerned about minimum wages. At the same time, we must say that - not only for us but also for others - the size of the wage increase has come somewhat as a surprise. The wage increase goes beyond the recommendations of an expert group. They had mentioned a lower range. We fully acknowledge that this wage increase in the short run leads to more income and therefore also to more ability to purchase; and therefore actually to growth. But one must also have the medium term perspective and there is a concern that this may affect the competitiveness of Greece. If other wages for other workers increase as well, then actually the Greek economy may have costs in the medium run to long term.

The Greek government had to come up with a revised plan for the first residence's protection scheme. There is an ongoing discussion on this. Are you satisfied with the latest model proposed?

As you rightly say we have seen the most recent proposal. So, we got a first proposal where we had a number of questions regarding the objective regarding the precise measures. Now, we got the revised version and we are looking into this and have to assess it. Also the ECB has to assess this independently because it goes to the financial sector. I think what is important for us is that a positive payment culture has to be maintained. That is something that we want to achieve. But the overall assessment is still due and we will provide that in due time.

A lot of discussion has been made regarding a potential new recapitalization of the banks. In fact, Greek banks still don't provide loans, at least not as many as needed. The amount of the NPLs remains high. So, what should we expect in the near future?

We do not think that the Greek banks need a recapitalization right now. There have been rumours that more capital would be needed but that was also over the past month, in view of ideas on an accelerated reduction of non-performing loans; and I think this is not relevant right now. The banks have done a lot to increase their capital from 2015 to now the capital ratios have increased significantly and they are now above the euro area average. Non-performing loans have been reduced. It is correct that there is a need to act further and the banks are doing this also as part of their daily business where they are requested to act from the supervisory authorities. We however are very happy also that the government has now come up with a proposal on an asset protection scheme that can further help in this regard. And this is a valid way forward to look into that. Now has to be assessed by the European Commission’s Directorate-General for Competition and all the relevant authorities.

Most analysts say that it is very difficult to solve the problems of the banking sector or to implement reforms ahead of elections. And Greece has elections coming up this year...

First of all it's very important to acknowledge that elections are a cornerstone of democratic societies and therefore we have to fully respect the process and to fully respect the outcome. This is essential. We also think that it is wrong to assume that nothing is being done. As I said before, the banks are dealing with non-performing loans and that effort will not stop because of an electoral campaign. From that perspective there are ongoing efforts. In addition we talk to the government and are in continuous dialogue in order to follow up with measures that improve the management of non-performing loans, the asset protection scheme, that I mentioned before, is one of the points here. Other elements relate for example to the e-commerce platform for non-performing loans. So, I think it is important to push ahead with measures in order to address the problem but we don't think that it's right to say that nothing is being done.

Greece has a cash buffer. The country also tapped the markets with a 5-year bond as it did back in 2014. A 10-year bond may be issued shortly and we recently had a better rating by Moody’s. But Greek bonds’ rating remains rather low. Why? Which is the roadmap to regain full access to the markets?

With the programme and with the cash buffer, we tried to create the conditions for Greece to have an orderly re-entering of financial markets. And I think it now shows that the strategy was right. The cash buffer allows Greece to go to the market without any rush and that is why Greece has also taken its time in approaching the market and this is appreciated by investors. At the same time, the task is to rebuild this investor base and to indeed enter the market. And that is why it’s also understandable that the Debt Management Office (DMO) is thinking about the next issuance. When and how to precisely issue, that obviously is fully under the decision-making power of the DMO and the ministry, and up to them to decide. However, that step must be taken at some stage and they want to do it now. For the outlook, in terms of credit ratings, I think it's very good that the fruits of the reform path are showing off now in better ratings but that also shows the way forward in order to improve the rating and get towards an investment grade rating in order to lower rates. You need to essentially continue that path and build further confidence. And as we said before that implies also sticking to fiscal targets and not reversing reforms.

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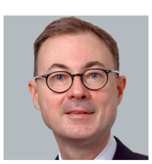

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