Rolf Strauch in interview with Kathimerini (Greece)

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Interview with Rolf Strauch, ESM Chief Economist

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Kathimerini: New Democracy and Syriza seem to have in common a plan to request lowering the primary surplus target of 3.5%. So does KINAL. Do you think it is a fair request?

Rolf Strauch: First of all, it is important to acknowledge that Greece has so far delivered on those targets and has even exceeded them. That is good and important news. Forward looking, we should acknowledge that the targets are part of an encompassing package of measures that were taken in order to assure the sustainability of Greek debt. The European partners made far-reaching commitments regarding Greece and the country committed to those targets as its contribution to the long-term sustainability of its debt. From that perspective, it is important to stick to those commitments and I do not see the targets being changed, per se. Obviously, there may be discussions on how to achieve them over the years, in terms of expenditure and revenues.

One reason why the parties are planning this request, at least for New Democracy, is to have the fiscal space to lower taxes. Do you think the Greek people are overtaxed?

It is certainly true that the tax burden for some taxpayers is very high in Greece and if you look at the tax rates, they are indeed sometimes higher than in other European countries. In any case, we must understand that tax rates are higher because tax collection is still falling behind. First, it is very important to strengthen the tax collection efforts and make sure there is no tax evasion. That will then help to lower tax rates. The tax package decided for 2020 goes in the direction of making the tax burden more equally distributed and broadening the tax base.

Elections are coming up. Are you concerned that they may have a negative effect on the reform process?

Elections are a key part of a democratic constitution. We should respect the process and the outcome, whichever it may be. For us the key point is that the government sticks to the agreed reform path, irrespective of who is in the new government.

Is a growth rate of 2-2.5% satisfactory for a country that has lost 27% of its GDP during the crisis?

As a long-term partner of Greece, the country's economic growth and the well-being of its people is of the utmost importance for us. This will also ensure that Greece is able to live up to its commitments and eventually repay us. Looking at past performance, I would say the country's current economic situation is an indication of its strength. The European Commission slightly raised its expectations for Greece this year. Going forward, what is important is to keep up the agreed reforms to make sure that there is a long-term high growth path. That also means strengthening investment and employment for the economy to thrive.

What are the risks that you see in the medium and long term for the Greek economy?

In the short term, there is the expected global slowdown. We are not running into a recession, but the slowdown can obviously affect the Greek economy, for example through tourism. In the long term, it is a question of how economic policies evolve in Greece. From that perspective, a reversal of the reform process, for example, would be seen as a risk.

Do you think there is a big risk for this, given the history of Greece?

The crisis has been a big learning experience. The Greek people have gone through an extremely difficult period and have suffered a lot. I think that they will keep this in mind and will want to ensure that the experience is not repeated.

What is your comment on the 10-year bond issuance and the rates of borrowing of Greece? What should be the next steps and what are the risks concerning its borrowing strategy?

The task of the government and the Debt Management Office is to get back to the financial market and have full market access. So they need to take the necessary steps to do this. When and how the government and the debt management office go to the market is fully up to them. What we have done with the programme is create a cash buffer, which gives them the necessary time so that they don't have to rush. And this has been well received in the markets. If the debt management office has decided to take advantage of the lower rates that Greece is now facing in the market, then this is something that we acknowledge and understand.

Do you think that the rates are low now?

The rates are now at a level comparable to the end of the programme so from that perspective they are relatively low. Should they fall further, can they fall further? The higher the confidence in the market, the better the market conditions, and here we come back to the importance of the policy path. The primary surplus target of 3.5% of GDP, among other measures, is important for markets to assess the country's commitment to fiscal discipline.

When do you believe Greece will be an investment grade country again?

This is not up to me to predict. This is something that has to do with the methodology of rating agencies. Again, it will depend very much on how Greece performs and how the country's economic policy choices are perceived in the next few years.

What is your opinion on the governments' plans for reducing non-performing loans (NPLs)? Also, do you think that the government bill on primary residence goes in the right direction? We saw reservations in the Commission's review.

It is crucial for the Greek economy and the banking system to address the issue of non-performing loans. A lot of progress has been made. Capital ratios are higher than the euro area average and non-performing exposures have been reduced by more than €20 billion since 2016. Banks are meeting the NPL reduction targets set by the supervisor and looking forward, even though it may become more difficult, we think meeting the targets is still achievable. As for the government's plan to reduce NPLs, we think it is good to try to handle NPLs in a capital-neutral way. Moving in that direction will help the banking sector make progress and be in a better condition to support the economy again. The Institutions are now in the process of looking at this. Regarding the primary residence protection scheme, we have gotten new proposals from the government and are now looking into them. For us, what is very important overall is that that the debtors continue to have an incentive to repay their loan.

After the Commission's rather critical review, how possible do you think it is that the Eurogroup of 11 March releases the €1 billion to reduce the debt burden?

We will know that at the Eurogroup meeting, but it is up to the Greek government to ensure that this decision can be taken. As you saw from the report, there are still a few open issues, but there is also a clear commitment expressed by the Greek government to work on them. The European partners are very committed to making this work on their side, provided all the requirements on the Greek government's side are fulfilled.

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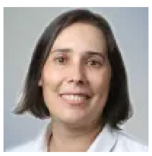

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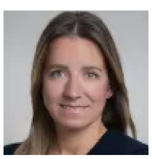

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