

Interview with Rolf Strauch, Management Board Member, ESM Published in *Euro* magazine (Germany), 21 October 2015

(The interview was conducted on 22 September)

Euro: Greece continues to be Europe's problem child. The newly elected government has to implement the requirements in what is now the third assistance programme. Why do you think this one will be a success – unlike the first two programmes?

Rolf Strauch: You're implying that we've not had any success so far. That's not true. Greece has completed painful reforms, which have had an impact. Five years ago, Greece ranked 109th on the World Bank's "Doing-Business" benchmark, which shows how attractive a country is for investors. At the moment, it is number 61. That's enormous progress, and the conditions for a successful programme are therefore much better. Still, Greece is the lowest-ranking EU member [on the list]. That shows how much work still needs to be done.

Euro: The people in Greece aren't noticing much of that progress. The country is still stuck in a recession.

RS: It's not stuck in a recession because of a lack of reforms, but because of months of political uncertainty. The lengthy negotiations with Alexis Tsipras's first government unsettled companies and investors. Without that incertitude, the forecasts then of economic growth clearly above 2% in 2015 would have been realistic.

Euro: Still, many Greeks thought the programme requirements were too strict. And now there will be even tougher ones that need to be implemented by a government from the left and the right. That suggests further political uncertainty ahead.

RS: I don't see it that way. Every survey shows that a majority of the Greek population wants to stay in the euro, despite all the political turbulence of the past months. That's the most important political signal coming from Greece. The new government in Athens knows this. What's more, the government this time round has a clear voters' mandate to implement the ESM programme. All that creates more certainty. So I see no reason why they would not stay on the right track.

Euro: That sounds very optimistic. But isn't the debt burden simply too high at 175% of GDP?

RS: It's economically not very meaningful to just look at the ratio of debt to economic output for a country with a debt structure like Greece. We measure debt sustainability by looking at the so-called Gross Financing Needs, in other words, the amount of money Greece actually needs to pay interest, to make debt redemptions, and to fund the budget deficit. We're of the opinion that Greece can manage these needs because of the long maturities of our loans, the very low interest rates, and the budget situation, which has clearly improved.

Despite all that, we've promised Greece that we will consider further debt relief if needed, and once our first review shows that the promised reforms have been implemented. There will be no nominal

haircut. But other steps are possible in principle, such as a further lengthening of maturities, or periods during which Greece would not have to make any interest or redemption payments.

Euro: The International Monetary Fund (IMF), a partner in the previous two programmes – disagrees, and thinks a debt haircut is needed. Who is right, you or the IMF?

RS: We're both right. The IMF has a different approach, because of its history. Its credit programmes are usually over a period of 10 years. Debt sustainability in IMF programmes has to be guaranteed within that period, and a country should be able to return to capital markets. Ours is a much longer time horizon, and we're better able to influence debt sustainability than the IMF through our lending conditions. Debt levels for us are therefore less a factor than gross financing needs.

Euro: So the IMF won't join the third programme for Greece?

RS: The points of view have converged in our discussions. The IMF also accepts that it makes sense to look at gross financing needs in the case of Greece. So I'm confident that the IMF will also join this time round.

Euro: Why do you use a soft debt reduction through long maturities and favourable interest rates? Wouldn't a nominal haircut be clearer and a more honest approach vis-a-vis taxpayers in Europe, as well as a liberating signal for the people in Greece? The country could do with an upswing in optimism.

RS: Of course the country needs optimism. But optimism shouldn't depend on debt reduction. Politicians should better communicate the progress that has been achieved, and lay out a better perspective for the future. At the ESM, we have the means to grant debt relief to Greece if needed, and if Greece implements the required reforms. A nominal haircut is not a political reality in the euro area, and would also cause major legal problems.

Euro: You're mentioning it yourself: the ESM has many instruments, and can support governments and banks in a wide variety of ways. At the same time, there is criticism of the ESM, because national parliaments can hardly monitor its powers. What do you say to such criticism of a lack of democratic accountability?

RS: I am aware of such criticism but must contradict it. All the important ESM decisions have to be taken unanimously. That means that the finance ministers of all the euro area Member States have to consent. The finance ministers are part of governments, which are democratically backed through elections. On top of that, finance ministers in a number of Member States, including Germany, need parliamentary approval before they can vet an ESM decision. So in my opinion, the operations of the ESM are democratically very well underpinned.

Euro: But provisions like immunity and confidentiality, which apply to all ESM staff, don't exactly inspire transparency or confidence. On the contrary, this triggers criticism. Why do you need them?

RS: Both the confidentiality agreement and the immunity of our employees are very limited. One example is that ESM employees may not disclose insider information that is market relevant. If such

information became public, it could lead to dangerous market distortions. It would be irresponsible if there were no duty to confidentiality.

Euro: And why do your employees need immunity against prosecution?

RS: Immunity is a common practice for employees at European or international institutions, such as the EU Commission or the IMF. But immunity is not a carte blanche. It's strictly limited to activities that we engage in because of our mandate. And even then it can be lifted.

Euro: The ESM is at the core of the euro zone rules to master future crises. But so far, almost every country has broken the rules. Rules get ditched quickly, particularly when politicians have their back against the wall during a crisis. Why do you think your rules will hold?

RS: The general rule frameworks, such as the Stability and Growth Pact, and the debt limits as part of the Maastricht Treaty, have been strengthened during the financial crisis. The economic policy coordination process in euro area countries, linked to the fiscal rules, as well as the role of the Commission, have also been strengthened. Countries are now more willing to implement reforms than before. That is particularly the case for countries like Ireland, Spain and Portugal, which have gone through our reform programmes. But as always, things could still improve.

Euro: The way you describe the architecture of the euro, everything seems just fine. But a lot of people in Europe think differently. In core countries surrounding Germany, people worry about their taxes. In crisis countries, they are burdened down by cost-cutting measures and structural reforms. How do you explain that contradiction?

RS: Crisis situations are tough. We know that people in crisis countries had to deal with wage cuts, and had to go through difficult times. But it takes time to deal with economic imbalances that have built up over a long period of time. What gives me hope is that a majority of the people in most countries – including Germany – are in favour of the euro. Just like before the crisis.