Greek debt levels are no longer cause for alarm

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Greece has been under financial assistance programmes for almost seven years. There have been delays, concerns and real drama that brought the country close to leaving the eurozone. There has also been a lot of progress in making the Greek economy more competitive. But for many, Greece remains synonymous with bad news. Few were surprised, therefore, when the International Monetary Fund recently stated that the country's debt was on an alarming trajectory.

A sober look at the facts shows that Greece's debt situation does not have to be cause for alarm. The European Financial Stability Facility and the European Stability Mechanism, the eurozone's rescue funds, have disbursed €174 billion to Greece. We would not have lent this amount if we did not think we would get our money back.

Much has already happened to ease the country's debt burden. Both public and private creditors have made unprecedented efforts to keep Greece's debt sustainable. No other country in the world has ever received greater debt reduction. In 2012, private investors took a haircut on their holdings, scrapping €107 billion in loans from Greece's books.

Then, public creditors eased lending conditions significantly. This reduced the economic value of the country's debt by around 40 per cent. As a result, Greece enjoys budgetary savings of about €8bn annually — the equivalent of about 4.5 per cent of gross domestic product — and will continue to do so for years to come. This does not lead to budgetary cost for European taxpayers. However, they do take on risks.

As a result, the actual cost to Greece of servicing its debt is among the lowest in Europe and will remain so for a long time. Its gross financing needs will drop in the coming years and fall well below those of most other eurozone countries by 2020. The recent short-term debt relief measures taken by the ESM will also help. If the agreed reform programme is fully implemented, debt sustainability is within reach.

Why does the IMF come to a different conclusion? The fund has so far not been able to integrate into its analysis of Greece fundamental factors that set a member of the eurozone apart from other countries in the world.

The ESM provides very long-term loans at exceptionally favourable conditions. In May 2016, Greece's eurozone partners pledged additional debt relief at the end of the ESM programme in mid-2018, should there be a need for it. And in the long term, they have committed to even more help, provided that Greece sticks to its side of the bargain. It is hard to overestimate the significance of this pledge, made by the finance ministers of the eurozone. Solidarity with Greece will continue.

Countries outside the eurozone cannot rely on such assurances. Once IMF disbursements end, they are on their own. In those cases, the fund is right to insist that debt sustainability is assured early. But in Greece, the ESM will hold two-thirds of Greek debt for at least another 30 years. As a result, the IMF's shorter time horizon is not appropriate. Also, the fund ignores the pledge made by Greece's eurozone partners.

The solution for Greece lies not in additional debt relief, but in the government implementing reforms so as to avoid delays in the issuing of the next tranche of the ESM loan. Investors understand the ESM framework and recognise the commitments of Greece's European partners. Past experience shows that making loans in exchange for reforms works. It is no coincidence that Ireland and Spain today have some of the highest growth rates in Europe and very low funding costs after successfully completing rescue loan programmes with demanding reforms.

In 2016, even Greece outperformed expectations, with a higher than anticipated growth rate and a primary surplus. Further delays could put this positive trend at risk.