

## **“Greece and the euro area adjustment programmes”**

**Speech Hellenic Bank Association**

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(Please check against delivery)

Ladies and gentlemen,

Let me join the previous speakers in congratulating the Hellenic Bank Association on its 90<sup>th</sup> anniversary. Reaching that age is an impressive achievement - not just for an individual, but also for a business group like yours. In 1928, when the HBA was set up, Greece was a very different country. It is proof of your resilience that you were able to play a role in Greek society ever since then. It is also a sign of hope, because healthy economies need healthy banks.

Greece itself is also going through a special moment in its history. Of course I am referring to the end of the ESM assistance programme, which will expire in two months from now. Your country has worked hard over the past eight years to put the often painful reforms in place that were needed. It is time to praise the Greek people and its political leaders for this shift towards a more modern economy.

The other countries that have received ESM support show that such reform programmes - however difficult they may be - form the basis for strong future economic growth. The four former ESM programme countries are all success stories. And Greece is on the brink of becoming the next successful example of this euro area approach, as

long as it sticks to the reform policies during the remainder of the programme, and continues to do so after 20 August.

From my position at the ESM, I have been very closely involved in Greece's recent history ever since 2010. Therefore, it is a true honour for me to speak here today in Athens. And particularly, to speak to the Hellenic Bank Association. As in most other euro area assistance programmes, banks played an important role during the crisis and the subsequent reform efforts.

The HBA has been very helpful during this process by providing advice on the design of legislation to improve the banking sector. We also welcomed your involvement in the Non-Performing Loans Forum, which assists banks in reducing legacy assets. The stock of NPLs represents the biggest threat to the Greek banking sector. And while we welcome recent sales, further efforts are still required.

In my remarks, I will first look back at what Greece has achieved during the almost three years of the current programme. I will then look at what remains to be done for Greece and its European partners – until August, and in the years after that.

The case of Greece is unusual, because it was the only country that needed three financial programmes, and not just one. I am often asked to explain why this was the case. The reasons are quite obvious: the problems in Greece were larger than in the other countries hit by the crisis, and implementation of reforms was slow. Greece also lost a lot of time during the first half of 2015, when there was a temporary halt of the reform process.

Taken together, Greece has seen the biggest sovereign rescue programme in history. A total of €270 billion was provided in loans in

the three programmes. The ESM will hold more than half of Greek public debt after the last disbursement of this programme.

I am glad to say that Greece has shown itself to be a reliable partner in the past few months and years. Progress in the third review in particular was smooth, which helped boost investor confidence.

To date, a total of €45.9 billion has been disbursed in the programme, out of a maximum of €86 billion. These efforts are already translating into a stronger economic performance. Growth has returned: 1.4 percent last year and 1.9 percent expected this year. Employment increased by 2.1 percent in 2017, and the unemployment rate dropped further to 20.1 percent in March, which is also a sign of higher flexibility in the labour market. Rising exports are a particularly encouraging sign, because a loss of competitiveness was one of Greece's biggest problems during the crisis.

On the fiscal side, progress has been impressive. In 2009, Greece had the highest budget deficit in Europe, more than 15% of GDP. Since 2016, there is a small surplus. Only a few countries in Europe can say the same. Last but not least, Greece has been able to raise money in the market on three different occasions. It is good practice to test the market well before the end of an assistance programme, and these deals show that Greece is starting to win back investor confidence.

Let me at the same time say that Greece's access to markets remains fragile. Regaining investor trust means showing full commitment to reforms, but even this may not be sufficient in the case of Greece. The recent market turmoil - due to factors outside the control of the Greek government - adversely impacted Greek spreads. The only way to address this is a continued commitment to reform, something

without which Greece cannot achieve a strong economic performance, let alone maintain it.

Despite that note of caution, Greece looks well on its way to become the next success case of the ESM, and of the euro area's crisis response. Of course, your country is not completely there yet. In the remainder of my remarks, I will discuss what still needs to be done, and what the situation will look like after the programme ends.

At the moment, we are in the fourth and final review of the programme. It was encouraging that the creditor institutions reached a rapid staff level agreement, and that Greece is working relentlessly to complete the 88 measures, the so-called prior actions, to conclude the fourth and final review very soon.

The list contains important reforms in the areas of tax policy and public revenue, public financial management, and social welfare. Reforms are also needed in the financial sector and product markets and in infrastructure, energy and privatisations. More effort is needed moreover to improve the effectiveness of the judicial process. And so the pace of reforms should not slow down. Once these actions are completed, we will look at the size of the final disbursement, which is intended to add to the country's cash buffer. This buffer serves as a fall-back option for refinancing needs, and is a reassurance for investors.

In the coming days, we will also need to reach an agreement over whether Greece needs further debt relief measures. Debt sustainability has been a key objective of the euro area efforts to assist Greece in its recovery. There have been times when I thought that the debate focused too much on what further debt relief measures could be put in place. It would be better if the focus was

primarily on Greece's reform efforts: because it is reforms that will ultimately convince investors.

It also needs to be kept in mind that Greece has already received very substantial debt relief during and after the crisis. Private creditors cut the value of their bond holdings by more than half in 2012, in the so-called Private Sector Involvement. This reduced the Greek debt stock by roughly €107 billion. Public creditors do not take such haircuts, but they eased conditions on their loans to Greece, which substantially reduced the net present value of these loans.

This, together with the favourable lending conditions of the ESM and the EFSF have generated substantial budget savings for Greece. We estimate that these savings amount to €10 billion each year, or almost 6 percent of the size of the Greek economy. These are very substantial savings for the Greek budget and represents the solidarity of other euro area countries with Greece.

Even so, the euro area finance ministers promised Greece further debt relief in May 2016, in the short, medium and long-term, if needed. The ESM has already implemented the first set of measures. These short-term measures will reduce the country's debt-to-GDP ratio by about 25 percentage points by 2060, and the ratio of gross financing needs to the GDP by around six percentage points.

The medium-term measures can be put in place if Greece has implemented the reforms that it has promised, and, as I said, if there still is a need. Discussions are now going on as to what this package will look like, and I am confident that an agreement can be reached in the meeting of the Eurogroup next week.

Alongside reforms, growth is of the essence. Your country's growth strategy is therefore very welcome. Greece has substantially

outperformed its targets for the large fiscal surpluses required under the programme. This creates fiscal space, which must be used wisely to support the development of the economy.

Let me finally say a few words about the post-programme conditions. I cannot stress enough how important it is for a country to stick to a policy of reforming the economy - also when it no longer depends on ESM cash. Reforms can be painful initially. But they are needed to tackle problems, and to lead the country and its population back to a healthy situation, with good growth and rising employment. It would be short-sighted not to stick to these reforms after the programme.

The most important issue is to ensure to the maximum extent possible that Greece can maintain market access after exiting the programme. That is not only important for Greece, but also for the ESM, as the country's largest creditor.

Like any other country, Greece will be subject to regular surveillance in what we call our Early Warning System. But as Greece requires substantially more debt relief than any other country in the euro area, the post-programme surveillance will be tighter and more comprehensive.

Ladies and gentlemen, let me conclude. We are here to celebrate your 90<sup>th</sup> anniversary. Throughout that period, your members have supported the Greek economy by providing credit – a role that banks play in all healthy economies.

Greece has worked hard to become a healthy economy again, and to win back investor trust on a sustainable basis. I have talked about some good recent news on that issue. Greece has become a reliable

partner in the third programme. Particularly in the past few months, we have seen an acceleration of programme implementation.

Greece is not completely out of the woods yet. There are still some issues that we need to deal with in the coming months. But I am reasonable hopeful that when we meet for the centennial anniversary of the HBA, we can look back not only at another successful decade for your organisation. But likewise at a first successful 10 years for the Greek economy after the crisis.

Thank you for your attention.