

ESM's Post-Program Assessment: Lessons from Financial Assistance to Greece

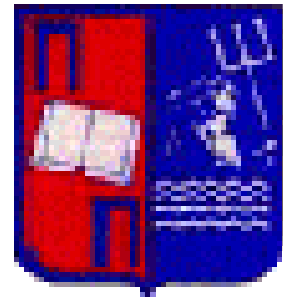


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EVENTS

Brief overview

Quality of the Report

- ❑ An impressive exercise, based on detailed data, extensive research and a multiplicity of in-depth stakeholder interviews
- ❑ A comprehensive analysis on what happened, will serve as future reference
- ❑ A sort of internal audit of the EFSF and ESM programs, although the early GLF program is also discussed

Aim of the Report

- ❑ To improve the framework of future financial assistance.
 - What should be the key factors/objectives in a program's content?
 - How should conditionality be designed and executed?
- ❑ The report tries hard to stay clear from political analysis.
 - Yet, politics was at the center of all rescue programs. ESM itself is a birth child of the Greek crisis, so is the Banking Union
 - For a decade, domestic Greek politics were shaped by the ingredients of the assistance programs; **politics rather than economics resulted in the 3rd program.**
 - All EA countries, many IMF members, the ECB, the EIB, etc. were involved, even individual parliaments. Some election results were being influenced by the Euro-group decisions. **Every institution or government had its own special concerns.**
- ❑ Hence, I think the **deeper aim** is how to **protect ESM from intrusive politics**
 - Protection comes through designing “**rules-based**” programs

Five recommendations for future programs

Ex Ante Rules that can protect ESM from discretionary politics

- 1) **Program Objective**: Focus on the **long term**. Greek program began with the aim to preserve the integrity of the euro area, restore fiscal discipline and ensure financial stability in Greece. Growth considerations entered later.
- 2) **Program Design**: Allocate the pain uniformly across society, have few macro targets, worry about the sequencing of reforms, the capacity of domestic bureaucracy to carry reforms. Avoid “one size fits all.”
- 3) **Program Governance and Sustainability**: Agree early on the how to follow and assess the program. Adopt transparent methodology on the DSA analysis with an early warning system, post program incentives, exit strategy options. Greek liquidity needs rather than reform implementation was often the driver.
- 4) **Coordination** among the institutions with pre-agreed assumptions, objectives, strategy, tactics.
- 5) **Safeguarding the program gains**: Post-program monitoring needed. Is there a carrot and a stick for future delivery of a program?

This question about the Greek program is not analyzed in the Report. In my view, the **answer is yes**. See next Table.

- Stick: Enhanced Surveillance
- Carrot: Future further Debt Relief in 2032

Sequential game: First reforms, then debt relief

Greek government chooses the y column (the strength of reforms), then Eurogroup chooses the PS row, the size of fiscal space

Horizon up to 2070	Output growth Low $y = 0.7\%$	Output growth Medium $y = 1.0\%$	Output growth High $y = 1.4\%$
Fiscal Space Yes PS = 1.5%Y	GFNs < 20% Y Debt/Y: 168.3%	GFNs < 15% Y Debt/Y = 128.4%	PS: 1.9% Y (2025-2032) ----- GFNs < 15% Y Debt/Y = 80.2% Y ----- Optimal Solution WITH Debt Relief in 2032
Fiscal Space No PS = 2.2%Y	GFNs < 15% Y Debt/Y = 118.0%	GFNs < 10% Y Debt/Y = 82.0% ----- Agreed Baseline Scenario & Optimal Solution WITHOUT Debt Relief in 2032	GFNs < 10% Y Debt/Y = 58.0%

Note: y is real growth, Y is nominal GDP, **PS** is Primary Surplus, **Debt/Y** refers to end-year 2070, **GFNs** is gross financing needs, avg. inflation $\pi = 1.9\%$ 2027-2070

Source: G. Hardouvelis & Th. Stamatou, "Greece: Fiscal Space, Structural Reforms and Debt Sustainability in the Decades following the Crisis," Working paper, November 2020

Concluding remarks

- ❑ The Report, “*Lessons from Financial Assistance to Greece*” will be a future reference point
- ❑ Some of the lessons are already learned, like on how to safeguard program gains
- ❑ Europe is politically mature to take the next step and adopt program rules, as they are proposed by the Report
- ❑ But please be aware! The next Euro Area crisis will most likely be of a different kind. It may originate from populist politics.

Thank you for your attention!

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