

# Die Welt

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## Assistance for Greece

*The right approach would be a growth program, not a haircut*

*By Michael Heise*

The clear election victory for the left-wing coalition Syriza has rekindled the debate about yet another debt haircut for Greece. Outside of Greece, too, many feel that a haircut is inevitable with the government debt ratio sitting at 176% of GDP. But these calls for a fresh haircut fail to take a whole number of aspects into consideration, or at least do not give them the importance they deserve.

First of all – and this is pretty much undisputed – Greece has already received a great deal of assistance. After private investors accepted a haircut to the tune of EUR 107bn in 2012, around 80% of Greece's sovereign debt is currently financed by public-sector creditors, i.e. taxpayers outside of Greece. Thanks to the various forms of relief that have been granted, the average interest rate on Greece's sovereign debt is sitting at 2.4%, which is more or less identical to the average interest rate in the German budget. This means that Greece has been relieved of its entire risk premium on the financial markets.

There are political limits to economic assistance. The statutes of the International Monetary Fund and the European Central Bank prohibit both institutions from writing debt off. So the main burden of any write-offs would be carried by the European countries that lend to Greece. This is highly unlikely to be politically feasible. After all, it is not just in Greece that populist Euroskeptics have gained ground.

The principle that "he who shouts the loudest gets the most" should not be applied to the provision of support. In relation to GDP, the interest burden carried by the Portuguese budget, for example, is one percent higher than its Greek counterpart, at 5%. Nevertheless, the country is not asking for any further assistance and has managed to

convince the markets, too, that it can successfully tackle its own problems, as is shown by its long-term bond issues. With new government borrowing low, the primary budget in surplus and the economy back to modest growth, Greece, too, could make a successful return to the capital markets if it weren't for the considerable uncertainty surrounding the future economic policy course. After all, yields on Greek bonds had fallen to below 5% back in 2014, before the new uncertainty started to emerge.

Second, the level of a government debt ratio currently says less, in itself, about debt sustainability than in previous times of relatively high interest rates. The IMF's rule of thumb, namely that debt ratios in excess of 120% are virtually unsustainable, does not apply in today's climate. When deciding how sustainable a debt ratio is, you have to look at the interest rate outlook, and Greece's interest rate outlook is positive, because creditors have granted assistance loans based on very low interest rates for terms stretching over decades.

Third, Greece's sovereign debt ratio is "overstated" due to the country's low gross domestic product resulting from the recession. The Greek economy has contracted by 24% since 2008. Greek industries and service companies are currently running at well below full capacity levels. With the right economic policy framework, Greece could make up for a substantial part of this slump within the space of a few years. With a balanced budget, economic growth of only 3% in real terms or, including price increases, 4% a year would be sufficient to cut around 20 percentage points off the debt ratio in only three years.

There is only one conclusion: Greece is certainly in a position to get to grips with its debt with the help of a bit of economic growth provided that the consolidation progress made over the past few years is not reversed. The country reported slight growth in 2014 and has a good chance of remaining on an upward trajectory in economic terms in 2015, too. Wage adjustments have made Greece more competitive, exports and tourism are on the up and the budget is virtually balanced. Even the high unemployment rate has been falling at least slightly for months now. There are no signs of further wage cuts and the current account is in surplus. Nevertheless, the country still needs international support. People in Greece would benefit far more from further assistance than from debt

cancellation, which would put paid to any willingness to provide support. But the fiscal and structural reforms made in the past cannot be overturned entirely if the country wants to benefit from further aid programs. This does not mean that social benefits cannot be improved again if Greece manages to ensure that tax obligations are met and curbs corruption. In order to improve the outlook for the years to come as well, it would be helpful to use an investment-oriented EU growth program to support Greece. Additional projects worth even a few billion euros could give the Greek economy a real shot in the arm. This would also make it easier to sell disciplined fiscal policy to voters.