Klaus Regling in interview with Skai TV (Greece)

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Transcript of interview with Klaus Regling, ESM Managing Director with *Skai TV* (Greece)

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Skai TV: It seems that coronavirus is seriously hurting the world economy. Today there is panic on global markets and oil prices crashed. So my first question is this: what kind of threat do you think we're dealing with?

Klaus Regling: Well, we have a health problem in the world. It started in Asia, in China. The good news is that China I think has seen the worst, so they are now beyond the peak of the crisis, and they are returning to normality, which is important for the Chinese economy, for the world economy, because there were some supply problems. Chinese producers could not supply products that are needed in Europe and the United States, and also the demand coming from China for European exports should normalize. So that's good news. But now, we feel in Europe the virus much more than two months ago and I think in Europe the peak is still ahead of us. So the health problems related to the virus will probably intensify over the next few weeks. And what we are worried about now are the economic consequences of that. And of course, all along, the virus will have its negative impact. Nobody knows. But I think it's realistic to expect now that growth worldwide will be lower than what we thought 2-3 months ago. So growth will be lower in Asia and China, but also now clearly in Europe. And we have to live with the consequences.

Is it only this, or are there fears that maybe the world is headed for a new recession?

That's not to be excluded. I think it's very clear that growth in the first half of 2020 will be visibly lower than what we expected one or two months ago. How much, it's very hard to say, but I think it will clearly be below previous expectations. The markets are reacting to that. But markets also overreact once they start moving. We already had that beginning last week. The oil price war that is now happening is totally unrelated to the virus. It comes on top of everything and will affect a number of companies. So this adds to the very hectic developments in the markets. So when I put it all together, I think we have to prepare for a significantly lower growth rate this year than we thought recently.

What can we do in Europe in order to stop this? There is a Eurogroup meeting on 16 March; should we expect any special urgent measures?

The Eurogroup already started talking about that last week. There was a conference call. The Greek finance minister participated in that, of course. And we are preparing now the Eurogroup a week from today, on Monday. And certainly the ministers will exchange views on what can be done and what is reasonable. I think one measure that will be important to take is to provide liquidity to companies that are affected by the economic consequences of the crisis because if there is a temporary liquidity shortfall, we do not want a number of companies to go bankrupt. I think that it's important to help them. There are different ways to do that. Different countries have different instruments for that. Some of them are being adopted, like Germany adopted a few of those crisis measures last night. And ministers in the Eurogroup in a week will talk about that - what makes sense, what are the available instruments in every country that can help to get through this temporary, but significant deterioration of economic developments.

These are national measures; what about European measures? Are there any thoughts about measures to stimulate growth? For example, decrease taxes?

I don't think there will be decisions that taxes should be reduced in every country. And I don't think that that is the role of the Eurogroup at this point. I think it's important to learn from other countries what are useful measures to get through this serious problem. And implementing the liquidity measures is one way to help. Having systems that exist in some countries - to keep people on the payroll, so they may work shorter hours once they get their salaries and wages - is a better way to get through such temporary problems.

We gained some experience in different countries in 2009, but I would not expect that there is now one decision for all of Europe. I think the situation differs country by country, and also the instruments that are available differ country by country.

As I understand, there are thoughts about the suspension of the Stability and Growth Pact. Is it true and how flexible can we be here?

There is absolutely no need to suspend the Stability and Growth Pact because it has flexibilities. The Pact has always foreseen that there can be special measures during a crisis, even the 3 percent deficit target, which normally is the upper limit for fiscal deficits, can be suspended. I don't think we are that far into this possibility, but this is what happened in 2009. There was a collective decision of all countries in the euro area to suspend temporarily the ceiling, but that's part of the Pact. So it's not a question of suspending; it's the question of deciding when the moment is right to take such a step. I don't expect that next Monday. But it's good to know that we have the flexibility that might be needed.

Are you afraid of a new debt episode somewhere? Indeed, many analysts are expressing fears about a new debt crisis.

No, I think we are not close to that. I think we should be prepared for a slowdown in the economy as a result of the virus. And it will be unpleasant, it will not be nice. It's unexpected. But I don't see that we are close to a crisis like 2008 or 2009. And the main reason is that we don't see in the euro area countries with such big macroeconomic imbalances such as we saw in 2008 or 2009. As you remember, Greece was one example but there were many others at the time, with a fiscal deficit and trade deficit far above 10 percent of GDP going up to 15 percent of GDP.

We don't have anything like that at the moment. For countries that improve their competitiveness, fiscal deficits are much, much lower. No country at the moment has a fiscal deficit above 3 percent of GDP. So even if there's some kind of deterioration, the starting point is much better than in 2008/09.

What about Greece? What will happen with the surplus issue? Is there any change of plans?

I discussed with the finance minister both the debt sustainability analysis and the fiscal plans for the next few years. There is no final agreement or decision, and that will also take a while because in the end, decisions have to be taken by the Eurogroup and will be prepared by the European institutions. So we will need to also discuss it with the European Commission, the ECB and we will also try to talk with the IMF.

There are a number of factors that indicate that there's more fiscal room, like the low interest rates, but there are a number of factors that point in the opposite direction, like lower inflation and higher debt levels. So we have to make an analysis and see how it all ends up in the end. And then unfortunately, on top, we will have a new situation because there's a virus which also then requires a new comprehensive analysis, and a new debt sustainability analysis. We will do that, and we will work very closely with the Greek government and to the province.

A lapse to the problems of 10 years ago, I don't see at all, because as I said before, the economic fundamentals today are much, much better in Greece, also in many other countries, but particularly in Greece. Just looking at the fiscal situation, you remember in 2009 there was a deficit of 15 percent of GDP. Now Greece has an overall fiscal surplus. That's completely different. There's a very small current account deficit. Ten years ago, the Greek economy had lost competitiveness and therefore there was a huge current account deficit, which required permanent capital inflows from the rest of the world. Big amounts of capital inflows, up to 50 percent of GDP. All of that is different today. So the vulnerability of the Greek economy today is much, much less than 10 years ago. At the same time, growth-oriented reforms are being implemented. And I encouraged the finance minister to continue with those reforms. And he made it very clear that this is the intention. Also, the prime minister, when I met him on Saturday, said that these new crises - the virus and the migration issues do not mean that reforms will slow down, maybe the opposite.

As I understand, it's one step at a time. It will only depend on the escalation of the virus?

Sure, there's uncertainty. We don't know. I think it's necessary, unfortunately, to prepare for lower growth figures for this year because of the first half of the year. And that's outside the control of the government. But the fundamentals are so much better. And in addition, of course, more than half of Greek public debt today is with the ESM. And we charge very low interest rates; the Greek budget benefits from that massively. According to our estimates, €12 billion is saved in interest payments, thanks to the debt relief measures and our low interest rates. So despite the fact that the deficit is as high as 10 years ago, the debt service payments are much lower. And in addition, the money from the EFSF and ESM will be with Greece for the next 40 years on average. We will not withdraw the money when a crisis hits, like private creditors could do. So that also provides a lot more stability.

Do you have any specific projections about the efficiency of the European economy in the first quarter of this year?

I cannot quantify that at the moment. I think everybody is now adjusting forecasts, but we don't have a comprehensive forecast. So I think it's safe to assume that growth will be lower - significantly lower. But I cannot quantify it.

Do central banks have any crucial role to play in this crisis?

That is for central banks to decide. They always have tools available and it doesn't have to be lower interest rates because they are already very low. But for instance, the question of liquidity becomes important. We talked about that. And I think liquidity is a crucial issue now where governments can do something. But also the ECB’s two targeted programmes can do something. So it's not as if they are powerless. They will look at the situation. And I have full confidence that the ECB will do what is necessary.

As far as the ESM is concerned, do you have an emergency lending facility? For example, the IMF stated the other day that there is one trillion dollars on the table for fighting the impact of the Coronavirus.

The one trillion is the total overall lending capacity of the IMF. Most of that requires an adjustment programme and an MoU. We have similar instruments, as you know. The IMF has something that we don't have: an emergency facility, but that's much smaller, that's $50 billion. It can be drawn with much less conditionality. But I don't think we are getting into that territory where we would be need adjustment programmes in countries because again, the economic fundamentals of all euro area countries today are much better than 10 years ago.

Has the Coronavirus given any lessons in terms of the dangers in the world economy that we should take into account? It seems we weren't prepared for such a thing.

That's right. But always when a crisis hits, you are not prepared, otherwise governments would have done something. We were not well prepared for the financial crisis 10 years ago. We have learned that. When you ask about lessons from the Coronavirus, I think that's a bit too early because it's just hitting now. I think the authorities in different countries are doing what they have to do. In the first instance, it's the health sector has to make sure that the infections don't spread too rapidly. That means cancelling meetings, like the big economic conference in Delphi was cancelled for that reason, and I think that was an unavoidable decision. Others lessons will be drawn much later.

Have you noticed already dysfunction in the product chains?

I think that's one contributing factor to the crisis - that value chains that go across the globe can break down more easily than many people expected, and that has negative economic consequences. So I'm sure some companies will draw conclusions from that. But that's for the private company sector, not for governments.

Author

Klaus Regling
Managing Director

Contacts

[Cédric Crelo](mailto:c.crelo@esm.europa.eu)
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu

George Matlock
Senior Financial Spokesperson
+352 260 962 232
g.matlock@esm.europa.eu