Klaus Regling in interview with El Mundo (Spain)

View PDF
17/12/2016
Interviews
ESM

Interview with Klaus Regling, ESM Managing Director
Published in *El Mundo* (Spain) on 17 December 2016

Interviewer: Pablo Rodriguez Suanzes

El Mundo: Mr Regling, can you give us a short overview on Greece since the agreement of July 2015?

Klaus Regling: I would actually start in 2014. We saw back then the first positive signs. It was the first year of positive growth after 5 years of negative growth. Unemployment went down, the country was able to issue bonds again and we were even debating if Greece would need a third programme or not. Then, we all know, prime minister Tsipras was elected in late January 2015 and he had a mandate to try a very different course: Reversing some of the reforms, stopping the previously agreed reform programme. We saw the results: the Greek economy went back into recession, they defaulted on some of their external payments and got very close to "Grexit". So it was quite a dramatic first half of the year. Very costly for the economy and the population.

Until July 2015.

In July, between the top political leaders of the euro area, there was an agreement on the third programme and since August 2015 it has been implemented reasonably well. There are problems, there are delays but we are moving in the right direction. At the moment, we are a bit stuck in the second review but I hope we can continue to make progress in the future.

The institutions did not appreciate the unilateral announcement by PM Tsipras for an extra payment to the pensioners. So the ESM Member States put the implementation of the agreed short-term measures temporarily on hold.

Under the ESM programme, Greece committed to discuss in advance with the institutions all policy measures that potentially affect programme targets and objectives. Also, what to do with any over-achievement of the primary fiscal surplus, which was the case here, must be discussed in advance with the institutions. We were not made aware of these proposals by the Greek government to spend additional fiscal resources for pensions and VAT before they were announced. I hope we can soon return to trust-building cooperative practices. In terms of content, the institutions have now concluded that the announced measures raise significant concerns, but that they are not expected to change significantly the targeted fiscal outcomes in 2017 and 2018. The ESM Member States will now decide what to do.

The previous government, with Samaras, complained a lot saying that the institutions pressed way too much in late 2014 and that what happened in 2015 was a direct consequence of this 'mistake'. Do you agree?

No. I know those views. It is quite common that a country that is under a programme believes that there's too much pressure on them. That's what conditionality means. Of course, there's pressure on a country to implement reforms in exchange for a substantial amount of money. It is very understandable that creditors take big interest in what happens to the country. They want to improve the situation, to fix the imbalances. Of course, one can debate how, and how quickly, but if the adjustments had been slower, more money would have been needed. There's a limit to how much a public creditor as the ESM is able to give, as we have to take into account the public opinion in all our Member States. And don't forget: We alone have given Greece almost €174 billion in very favourable rescue loans. That is much more than any other country in the world ever received.

At some point in 2015 ministers and the leaders of the institutions lost their tempers *and took it personally. It didn't happen in 2011 or 2012. It was because of the personalities or something else?*

I think it was the personalities. The behaviour of the Greek Finance Minister [Varoufakis] was just unacceptable and the Eurogroup was very clearly united, 18 Finance Ministers had a very different view.

That's easy to understand. But why the European ministers were that aggressive against Varoufakis but leaders are not as aggressive when other ministers are so vocal on racist views, hard line views on refugees or against Muslims. It seems that on those examples in Europe you don't take it personally as it happened with Greece. When it is about money, you take it personally. If is about refugees or Muslims, is just politics.

I don't share that analysis. I believe it was very much based on the personalities we had to deal in the first part of last year.

In July 2015, for the first time, it was put on paper that the euro was not irreversible not indestructible. What are the effects of that?

Markets understood that with the right policies, countries will stay in the euro area. That was confirmed by what happened last year with Greece because it was possible even late in the game to change the course and bring the country back to the euro area approach. Markets at the moment do not assume at all that Greece would leave the euro area, so I don't think that has had a lasting impact. But it was a very dramatic moment, that's true.

Taken all together, over €250 billion has been disbursed in the Greek programme so far. What will happen to this money?

I clearly work with the assumption that all the money will be repaid and this is possible with the right policies. When you look at the debt, the overall amount in euros has not changed very much in the last five or six years. The debt ratio has gone up because the GDP collapsed, but the overall debt is about almost the same. What has changed is the composition. Now, half of the debt is owed to institutions that I manage, EFSF and ESM, and we charge very low interest rates and maturities are very long. This is what ESM member states did agree with Greece, in exchange for Greece implementing difficult reforms, fiscal consolidation, financial sector reforms, structural reforms in the labour market, pension reforms. Clearly, there is solidarity in exchange for tough adjustments that the Greek population has to accept.

In your opinion, is that the reason that explains that no haircuts are needed this time?

There was a huge haircut from private creditors in 2012, the largest ever in history. That of course helped Greece. From the official creditors, including us, there was an improvement of the lending terms. Maturities were extended, and we eliminated fees and charges, so in the end the Greek budget saves every year about 8 billion euros, that is the equivalent of around 4.5% of their GDP. That’s real solidarity.

Cyprus, Ireland, Portugal, Spain… those programmes, in your opinion worked. What failed in the Greek one? Less expertise at the beginning?

No, I don’t think so. We have supported five countries, four of them are success cases to a varying degree. They all exited after just one programme, it never took longer than 3 years. Today they are all back in the markets and can finance themselves. Ireland, Spain and Cyprus are among the countries with highest growth rates in Europe. A very successful performance, especially in Ireland and Spain. Greece is different and it is a very good question why. There are three reasons in my view. The first is that when the crisis broke out, the problems in Greece where much bigger than in any other country in terms of fiscal deficit, trade deficit and loss of competitiveness. The second reason is that the Greek administration is extremely weak. That is the reason why Greece received a lot of technical assistance from the Commission, IMF, member states, but to strengthen the administration and make it as strong as the European average is a task for a generation. The third reason is that in the first part of 2015 there was this big disruption with the new government.

What can you tell us of the Spanish case? Many expected in 2012 a full bailout, not just help for the financial sector.

The application for an ESM financial sector programme was the right decision. The Spanish situation was very different from the other programme countries and in the end, the programme was very successful. The banking sector today is much, much stronger. The commitment from the Eurogroup to provide up to €100 billion was very helpful for calming markets, but only €41.3 billion was needed, which of course is good. And it is also a positive signal to the markets that Spain has been able to already repay almost €7 billion voluntarily in advance, so the outstanding claims have come down to €34.7billion. It was also positive that the government used this opportunity to implement other structural reforms, labour market reforms, pensions. This is a very important reason that explains why the economic performance is so good today and why investors are confident with regard to Spain.

What were your thoughts at the time during this debate? Did you support the full programme option or advocate for more money to be required by Spain?

I was confident that €100 billion would be enough. It was in the end was a pleasant surprise that Spain needed much less money. It was not what most people expected, including myself.

Can you foresee any other country asking for financial assistance in the short term?

No.

It has been reported that Italy was thinking about it. You have already said that there is neither a request nor any negotiations. But there's an issue with Italian banks right now.

From the moment I started building up the EFSF and then the ESM, people always predicted that Italy would be the first country to need money from the new institution, so I am used to that. In reality Italy never lost access to markets. There are concerns about low growth rates, low productivity gains in Italy, but that doesn't mean there's a crisis. We provide money if needed to countries that have lost access to markets and Italy is not in that category. On banks, I read of course quite often these days that there's a banking crisis in Italy, but that's exaggerated. We know very well from the ECB stress test that there is one big bank that needs capital and there are maybe a few smaller banks that need capital as well. Please keep in mind that there are 600 banks in Italy. So we don't see in Italy a systemic country-wide banking crisis like some countries faced 4 or 5 years ago. This is just not the case.

There's a framework, a new one, rules, but at the end it is all about political *decisions and political will and interpretations of the Treaties.*

Yes, but we are much stronger than a few years ago because the ESM now exists. We have the banking union, the Single Supervisory Mechanism. We have the BRRD, the reinforced stability pack. All that is positive. It is much better having this framework in place, we are much better prepared for the next crisis. Banks themselves have added a lot of capital, they added €600 billion, and the countries that lost market access have done their homework. Europe is functioning relatively well, a lot better than what is perceived by the general public. We are not in a bad shape. It can be improved but the situation is not bad.

Many see you as a fiscal hawk. Is this accurate?

Often I am called an optimist. I never heard people calling me a hawk. I consider myself a realist.

How do you see yourself in the fiscal stance debate? Now we talk more about growth and employment than five years ago. Do we need a positive fiscal stance in Europe?

I have been following this debate for decades and we always have had the question when is the right moment to use fiscal stimulus. Does fiscal stimulus lead to more growth or not? It is not new. The experience of the last few years has shown that we must be careful and not accumulate too much debt and debt is accumulated through fiscal deficits. Why were countries like Finland and the Netherlands, which had a very difficult economic performance for a number of years, never attacked by markets and why have they never lost market access? Because they have relatively low debts levels. It is just a fact, it is what markets look at, whether we like it or not. The Eurogroup rejected the fiscal stance proposal of the European Commission to have an additional fiscal stimulus at a time when actual growth is above potential growth and I share that view.

The ESM has a well-defined role as the euro rescue fund. But in the future this role could change. There's a lot of speculation. Do you think that your mandate is currently too narrow?

When I compare the ESM today with 2010, when all started, we are already doing much more than I expected back then. We have seen a very significant development of the ESM. We have disbursed almost €265 billion, much more than I thought would be needed. We have been able to raise the money in the markets, which was not guaranteed from the beginning. We are much more involved in the question of the debt sustainability, particularly in Greece. Short-term debt measures were developed here in this institution to help Greece. We are not looking for a new mandate because we are working already a lot. I know that there are proposals in the Five Presidents Report, in the European Parliament, individual governments, ministers, think-tanks like Bruegel and academics. At the end it is for the ESM Member States to decide to broaden our mandate.

What do you have in mind for the ESM? A sort of European IMF or a sort of embryonic European treasury?

As I said, at the moment we are very busy working on our existing mandate. I don´t see our role to push for a wider one. These two examples are interesting because they are mutually exclusive. I can't say in which direction we will move and anyway it would take a while because some of the ideas we talk about imply a changes in the EU Treaty and we all know that takes a very long, long time. In my view, additional steps to complete monetary union can be relatively small. I don't think we need a big, great design for something completely new. I also don't believe we need full fiscal union or full political union for making monetary union work. If we had that, we would have the United States of Europe and that's not what the populations or the governments want.

The population or governments? It is not the same thing.

They share the same views, I believe. Maybe it was different 25 years ago and certain people and governments supported the idea of a United States of Europe. But I don't see anybody who wants that now. Of course, there are some who want that but they are a minority.

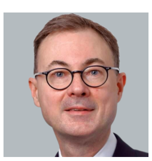
Why is that? What happened in the last 25 years ago in your opinion?

Good question. Unfortunately, I don't have a good answer. We face at the moment opposite trends. Populism. A movement against globalisation, against cross-border cooperation and the EU is the most advanced form of cross-border cooperation. We have a backlash, not just in the EU or Europe. We see it in Switzerland, in the US, we saw it in the Brexit vote. We have to take note, argue, explain, but also accept that big new initiatives are not what people want at the moment. As an economist who has been involved in the monetary union for a long time, it is very reassuring that we do not need new big steps to make the monetary union a success. We need a few small things like concluding banking union, working on capital markets union. Maybe a small fiscal capacity without permanent transfers or debt mutualisation. And improved risk sharing. When I saw last week's market reaction to Mr Renzi's resignation, or the reaction to Trump's election or after the Brexit vote, each time it was rather limited. I think that markets understand that the underlying economic situation in Europe is much better today than it has been in a while.

Author

Klaus Regling
Managing Director

Contacts



Cédric Crelo
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