

Klaus Regling in interview with Delo (Slovenia)

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Interviews

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Interview with Klaus Regling, ESM Managing Director

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Delo: Mr. Regling, the ESM is very engaged in ongoing operations in Greece. Some Greek service payments are coming up in July, but there is still no agreement on debt relief measures for Greece. What is the state of the play in Greece right now?

Klaus Regling: It's correct that we are very active in Greece, but it's a good sign that the other four countries that received loans from the EFSF and ESM are now success cases. They are back on the market, they have amongst the highest growth rates in Europe, with unemployment falling. That confirms that the approach which was chosen a few years ago to help these countries by providing financing against conditionality is working the way we wanted it to, the four other countries have proven that.

We are talking about Ireland, Spain, Portugal, and Cyprus.

Yes. So four out of the five countries we dealt with over the last seven years are now success cases. And Greece is the last one where we are still actively involved and working. It is the only country still under a programme. The fact that Greece is under the programme for almost seven years indicates that it is particularly difficult case.

All the other four countries only needed one three-year programme to get out of their problems and regain market access. Greece is difficult but even Greece has made some good progress. One important number that demonstrates this is that Greece had a small budget surplus last year. Not many countries in Europe had a budget surplus, Greece is one of only four countries that did. And we know that in 2009, Greece had by far the largest deficit of any country, 15.6 % of GDP. Greece has come a long way. Despite the slow process and some ups and downs, it indicates that also Greece is making progress. And now the ESM is right in the middle of the third programme for Greece. So far we have disbursed almost €32 billion. The programme runs until August next year and we are very close to concluding the second review of this programme. All participants agree that on the policy side Greece has implemented the agreed reforms. That's positive and also good for the Greek economy. We don't have an agreement yet, particularly with the International Monetary Fund, on debt relief.

Yes, we know that the IMF has been arguing in favour of debt relief for Greece. But what is the position of the ESM in this case right now?

It is important to remember that Greece has already received a lot of debt relief in the past. In 2012, private creditors accepted a big haircut of more than €100 billion and that of course continues to help Greece today. The official sector, including the EFSF and ESM, provided Greece better lending terms, longer maturities and lower margins. And, of course, Greece also benefits from the very low interest rates that we charge for our loans. There is no budgetary cost for taxpayers. We charge our funding costs, which are very low, because we have a good rating. The reason we have so much investor confidence is that we have a very high paid-in capital from our Member States – over €80 billion. That is the highest paid-in capital of any international financial institution worldwide. So Greece benefits from all that. And the Eurogroup, the 19 finance ministers from the euro area, agreed a year ago how to proceed with that relief. It is all spelled out in detail in the Eurogroup statement of 25 May 2016: Firstly, short-term debt relief measures were agreed and they are currently being implemented by the ESM. Secondly, it was agreed to provide more debt relief at the end of the programme in August 2018, if necessary, based on the debt sustainability analysis at that time. And in the long run the Eurogroup also made the commitment to provide more debt relief for Greece, if this is really needed. Now the IMF tells us it would like to have more clarity on how the medium-term debt relief could look. And there we have not found complete agreement yet,

but I hope it will be possible at the next Eurogroup on 15 June in Luxembourg.

So, next week?

Yes.

Will Greece be able to return to the financial markets by the middle of 2018?

Yes, if we make progress in the next few months. I hope that we will make the ESM disbursements in June or early July, based on the conclusion of the second review. Also, Greece needs to continue to implement the agreed reforms in the rest of its programme. If this is the case, I am sure that Greece will be able to issue bonds on the markets again later this year or in 2018. We should remember that Greece was already able to do that in 2014, when the first signs of improvement became visible. Unfortunately then, in the first half of 2015, the Greek government moved in the opposite direction and many gains were lost. That's another reason why it takes longer than in other countries. But I am sure if reforms continue to be implemented, Greece can go back to the market.

Is there also political disagreement between eurozone countries regarding the solution of the Greek debt relief?

On the policy side we have agreement at the moment on what should be done. We all work under the agreement that was reached in 2015 for the ESM programme. On debt relief, of course, Greece would like more certainty early on. But there the Eurogroup made clear in May 2016 the way they want to proceed. Everybody is committed to that agreement.

Slovenia was also very close to an ESM assistance programme in 2013. Our government decided to solve the problem on its own, without foreign help. Four years on, do you think it was a wise idea, considering the outcome, consequences, and macroeconomic recovery after 2013?

I remember very well that in 2013 we were living in a different world, we were still in the euro crisis. And I remember that many people expected that Slovenia would also need help with ESM funding at that time. But we see that Slovenia has taken the right decisions, economic developments are very healthy, growth is accelerating this

year. Debt hopefully will decrease for the first time this year, the fiscal deficit is coming down. Economic results are very positive in Slovenia.

Yes, but there is also a broad public discussion in Slovenia regarding privatisation of the NLB and what some see as a possibly overpaid bank recapitalisation at the end of 2013. What is your opinion on that?

I will not comment on individual banks. The ESM is not involved in that, so I cannot make a comment on that.

What about the future of the ESM? Will it transform itself into a European Monetary Fund in the course of the next few years?

There are many proposals at the moment, coming from different governments, from the European Parliament, from the European Commission. And of course, one has to see them in a broader context how to strengthen the European Union and the euro area further. A lot has happened in the last few years to make monetary union function better, to make it more robust. And one step was to create the ESM as a permanent crisis mechanism. That has proven to be very useful. The other important element is the banking union, a common European supervisor, to have tighter economic policy coordination, broader surveillance. All this helps to make monetary union more stable. Now we have a debate on what else should be done. I believe compared to what we have already done in the last five, six years, we don't need so much more to make monetary union more robust. It would be important to fully complete banking union. One should also think about a very limited fiscal capacity for the euro area, which to my view does not need permanent transfers or debt mutualisation. Rather, this would be a limited fiscal capacity to stabilise cycles that deviate significantly from each other. Particularly when countries are hit by asymmetric shocks. There we don't have a good mechanism yet. That would be another important element. And in that broader context, the debate about developing the ESM to something like EMF is also interesting. I don't think it would be a full European Monetary Fund like the IMF on the global scene. Because if the ESM became in Europe what the IMF is doing on the global scene, that would require a change of the EU treaties and that is very complicated. But I would support some steps to give a broader mandate to the ESM.

As far as the future euro area governance is concerned, the European Commission

put forward proposals on further eurozone integration last week – as a response on the rising populist sentiment across EU. For example, there are proposals for a common eurozone finance minister and for a new debt instrument that bundles national debt and puts them into one asset. Do you agree with that?

KR: I would not take the view that the Commission has put forward proposals in response to rising populism. The Commission really has been thinking how to make monetary union work better, make it less vulnerable, more robust. And some of the items I just mentioned are part of that, like completing the banking union, creating a very small special fiscal stabilisation mechanism. In that context, there are also proposals from the Commission on a European finance minister who would manage such a fiscal capacity and would also represent the euro area in international fora like the IMF, G7, G20. There is also a proposal of a safe asset, which in principle, I think is useful to support further financial integration of the euro area. But, what I've seen so far, the different proposals that exist to create such a safe asset are not really convincing. I would support thinking about creating such a safe asset, to have really a broad market that is comparable with the broad market for the US treasury papers. But I think we still have to work on what is the best efficient solution for that, something that does not lead to debt mutualisation, which would not be acceptable. It is a good objective, but we don't really have an appropriate solution yet.

There is also no appropriate common political will of the eurozone members on this issue.

Yes. But I think that's linked to finding the appropriate solution that everybody can support.

How compact and stable is the eurozone right now?

I think the eurozone is much more stable than it was five or six years ago. Because of all the measures we have taken, including the creation of the ESM, although this is only one element. Banking union is important. Better policy coordination is important. And of course, we are in a better situation today because those countries that needed financial support from the EFSF and the ESM have done their homework. Four out of five countries are now success cases. They are out of their programmes, they have high growth rates. In that sense, the euro area is in much better shape than it was a few years ago.

Yes, the economy is blossoming at the moment, but do you think that the eurozone is now well prepared for a new financial crisis which could be just around the corner?

I don't see a next crisis around the corner. But it's true there will be a crisis one day because it is part of our economic system is to have a crisis from time to time. Of course, we all work hard that it doesn't happen too soon and doesn't become too big. The last crisis was particularly big and serious, the biggest economic and financial crisis Europe had since World War II. Now I don't see a crisis around the corner, but we know it will happen some day. So it's good to be prepared. That's why it was correct to create the ESM as a permanent crisis mechanism. We will always be available to help if necessary. The banking union will continue to develop and all the proposals we have talked about now about completing the banking union, thinking about some small fiscal capacity to stabilise economies. They are all designed to prevent the next crisis or make it less serious.

So, at the time being, there is no new eurozone country which could be a candidate for the ESM assistance?

No, I don't see that. Greece is of course ongoing and I hope they can exit their programme for good next year. But I really don't see another country waiting to move into crisis.

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