

Klaus Regling in interview with Efimerida ton Syntakton (Greece)

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Interviews

Athens, Greece

Interview with Klaus Regling, ESM Managing Director

Efimerida ton Syntakton (Greece), 1 July 2017; interview took place on 29 June

Interviewer: Nikos Sverkos

Efimerida ton Syntakton : The Eurogroup on 15 June stated that it is "ready to implement a second set of debt measures to the extent needed". Did Greece get what it deserved?

Klaus Regling: I don't know how you define "deserve", but this was very much in line with what the Eurogroup already defined a year ago, in May 2016, where it was decided to start immediately with some short-term debt measures. This statement also said that there would be medium-term measures after the end of the programme and a number of possible measures were mentioned. And then there would be a third part of long-term help, that would be available in the long run, if needed, which I think is a very important commitment from the Eurogroup. So what exactly happened on 15 June is that this medium-term part was made more precise. And I think it's now much clearer what might happen, if needed, in August 2018.

The Eurozone finance ministers have agreed that Greece must achieve a primary surplus of 2% from 2023 until 2060. Isn't it absolutely unusual to make such long term-plans about a national economy?

It is very unusual. But it follows the very unusual situation in Greece. No other

country has ever received so much money from its partners as Greece. The EFSF and ESM have disbursed so far €173.5 billion, more money is in the pipeline next week and until the end of the ESM programme. Before the EFSF, there was already money from the so-called Greek Loan Facility. The amounts were unprecedented, this has never happened in the world before. It was also agreed to have very long maturities. We want to help Greece regain debt sustainability and we want Greece to have a strong, healthy economy with good growth rates, where employment is coming back and jobs are created. That's why such a long time frame was adopted. And that is very unusual. But because we now have this long time frame with very long repayment periods, that's why we need to look into the future for such a long time span. But you are absolutely right, that is very unusual.

According to the third programme, the ESM programme, Greece could borrow up to €86 billion. Will Greece need the entire amount?

The amount of up to €86 billion was agreed in the summer of 2015 when the third programme started and we wanted to be on the safe side. Also, in a number of the other programme countries, the actual disbursed amounts were below the ceiling. So it is not so unusual if the full amount is not used for Greece. That's positive. Also, debt sustainability is reached earlier if less money is disbursed, because it means the debt level is lower. We have known for some time that the €86 billion will not all be needed. How much exactly will be needed, we don't know, because with every review we make new forecasts. We leave that open, but I am sure that it will be significantly below €86 billion. And that's a good sign.

Will Greece fully conclude the third programme?

That's my assumption, of course.

So you are also optimistic that no "4th programme" will be needed...

I don't assume that.

As the head of the EFSF and ESM you have witnessed all three Greek programmes. Why are you so confident that this third programme will be more successful than the previous two?

In all the previous programmes we have seen successes. In 2014, for instance, positive growth rates came back, unemployment dropped and there was market access that year. So it is not that we see success for the first time now. Then there was the interruption of the first half of 2015 and since then we have come a long way. Not everything is perfect, we still have work to do. We also have 14 more months to do that. We know exactly what to focus on. We need to focus on reforms that stimulate investment, growth and raise growth potential. But what is very positive is that the fiscal adjustment has been done. We saw decisions adopted in parliament in recent months and I don't see a need for additional fiscal measures. There was also a large primary fiscal surplus last year, it will probably be lower this year, but that's in line with the targets. So I see positive developments and of course my assumption is that the remaining issues will be tackled successfully. That's in the interest of the Greek economy, the Greek people. And also it is in the interest of the ESM, it is in our interest that the economy is doing well, because that's the best guarantee that after 30-40 years the economy will be able to repay the ESM.

Can you predict when Greece will achieve to get back in the markets?

If the reforms continue during the next 14 months, I have no doubt that Greece will be able to get back to the markets. That's also the experience we had in other countries, they all went back well before the end of the programme. That's good because it would not be healthy to rely on the ESM till the last day of the ESM programme 100%, and the next day, after the end of the programme, rely completely on the market. It doesn't matter which months, later this year or early next year. This also depends on market conditions and the Greek debt management office watches that very carefully. But I am sure it can be possible, because progress in the programme is significant, but it is important that policies continue.

You have raised concerns on the actions of some Greek ministers regarding privatisations. You met with Alexis Tsipras. Do you have the same impression about him, too?

No. I had a very good meeting with the prime minister and I see he's very committed. We also talked about this point and I had to notice that in the past, sometimes some members of the cabinet were not as supportive about certain programme actions as the finance minister and the prime minister. Statements in Greece that go against the programme are seen by the markets. That's negative, it's

not good for confidence and sometimes we see such statements.

On the other hand, we see the reactions of political leaderships of countries, such as Germany or the Netherlands, arguing that not a lot has been done in Greece...

I regret that in some countries, it is not recognized how much progress there is in Greece, but I don't see that in the Eurogroup. I don't think European finance ministers share these views, because they are informed on a regular basis. But in public opinion, there are some academics or some newspapers in some countries that take that view, which is unfortunate. That's why I have argued against them. I think it is important to give credit where I see progress, but at the same time, I also make clear that more needs to be done.

There's public debate on the need for a European Monetary Fund. Wolfgang Schäuble has set this goal. Is the ESM ready for such a transition?

I would put it in a broader context. There is a debate in Europe how to strengthen monetary union further. A lot was done during the crisis and that is good. We now have new institutions, but there is a debate what else to do. In that context people discuss things like a fiscal capacity in the monetary union, we have a discussion to complete the banking union, because some elements are missing. And then there is the debate that the ESM should develop into a European Monetary Fund, but it is a broader debate. And I think it is useful. I think that not so much more needs to be done, but we have to discuss how to make the monetary union less vulnerable. I am sure we, the ESM, will play a stronger role in the next crisis. We can take over some of the responsibilities that the IMF has had in recent years and I think there's a broad consensus that in the future we will do that.

When can this happen?

It is a gradual process. Already we are doing a lot more than in the past. It depends which mandates our member states want to give us in addition. Some of these ideas would require a change in the EU treaty. And that will probably take some time.

You talked about deepening monetary union. Don't you think that also the mutualisation of risks in the Eurozone is essential in this debate? Some economists claim that creating Eurobonds is much needed...

I don't think there will be a consensus on Eurobonds anytime soon. I also don't see this as a requirement to make monetary union more robust. The mutualisation of risks has to be looked at in a more nuanced way. To some extent, we have risk-sharing already with the ESM and one can have more risk-sharing by completing banking union. If there is also de-risking as agreed by member states, a fully developed banking union would advance financial integration further and lead to risk-sharing across borders, among European countries, but via the private sector. But it doesn't have to be done via fiscal channels. In addition, there are examples in the United States that show that fiscal risk-sharing can happen without permanent transfers and debt mutualisation.

Brexit was a big blow to the European project. Should the Eurozone be more flexible in order to tackle right-wing populism?

I personally want to do everything possible to contain populist movements. Fortunately, the recent elections have shown that they are much smaller than some people were afraid of. They are still there, but in a broader sense I think Brexit was a shock, but it has also reinforced a conviction in the other 27 countries that the EU is useful. I think this complicated process of leaving the EU makes it clearer where the advantages are of being in the EU. Also, in certain areas integration will be easier for the remaining 27 EU members, because the UK always blocked attempts to have more common foreign and defence policies and I think many people are supporters of that. There are indications that the support for the EU and in particular for the euro has gone up significantly since the Brexit vote 12 months ago. That makes me optimistic for the next phase in European integration. Additionally, there is the new French president who won the mandate to work for more European integration – and for reforms in France. So I think that Europe is moving forward in a positive direction.

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