

Klaus Regling in interview with Kathimerini (Greece)

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Interviews

Interview with Klaus Regling, ESM Managing Director

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Kathimerini: We often hear that Greece will have enhanced surveillance after the end of the programme, unlike the other programme countries like Portugal, Ireland, etc. What would be best for the markets: to have more surveillance than the other countries or would they prefer to see Greece without surveillance?

Klaus Regling: Markets are always happy if a country is under the surveillance of its creditors. If you ask markets to invest, this is reassuring for them. The surveillance, on the one hand is identical with what is happening in the other countries who borrowed from us. There is post-programme surveillance, there is the early warning system from the ESM and this will happen for many years. Greece, like other EU countries, is subject to the normal EU surveillance frameworks on the fiscal side: the Macroeconomic Imbalance Procedure and the annual country-specific recommendations that the Commission sends to all Member States. All this is normal. However, if Greece wants additional debt relief, which means for creditor countries to grant something extra, there is the legitimate question that creditor countries would want to make sure that agreed policies are implemented, that there is no backtracking on promises in relation to the primary surplus for instance, on the future tax policies and on privatization, on the reduction of non-performing loans (NPL). The goal is to make sure that these things are truly implemented as agreed.

There is already agreement on measures that still need to be taken even if

Greece does get the debt relief. How will you make sure this will happen? Greece already has problems with ownership of the programme as it is now.

There will be no additional conditions. But I think that creditors are interested to see that measures that have been agreed and to a large extent implemented are not withdrawn, that there is no backtracking. The discussions on debt relief and how this can be done are only beginning now. I cannot tell you exactly what the result will be. When we designed the programme, these measures and reforms were agreed to help the Greek economy. It was not to please some outside forces. All the reforms are in the interest of the Greek economy. We see the benefits already now. These measures are done to help generate higher growth, to strengthen the growth potential, to create employment, sustainable and healthy developments. This is in the interest of the Greek economy, the Greek people and it is also in the interest of the ESM. That is why I see a long-term partnership between Greece and the ESM. Our objectives are the same.

The statement by Eurogroup President Mario Centeno on how important it is to have ownership of the programme sounded a bit strange now that we are at the very end of the programme. Does this mean that all these years the Greek government has not been really owning the programme?

Ownership of the programme is important in every case. It was important to the other programme countries. Many people have been talking about it. I have stressed this on many occasions when I was in Athens and when I saw a lack of ownership on some occasions. Ownership has improved. Sometimes there are still signals that it's not fully there the way we would like. For example, on privatisations there are different voices. It is all right to have a debate on specific measures. But in the end, it is important that the government and all parties in parliament are behind the programme, that they accept that the programme is there to help the Greek economy and the Greek people. It is not something imposed by outside forces. It is done in the interest of the Greek economy because there were problems that had to be fixed. If that understanding was demonstrated by everyone involved, in parliament, in the government, the media, and the public debate, it would be really helpful.

The idea that is being processed now by technical teams of linking debt

relief to growth, does it seem counterproductive to you?

I don't think one should call it counterproductive. There are different interests. The creditor countries take on the risks of the loans to Greece via ESM. At the end that is a risk for all euro Member States. They don't want to take on more risks than is really needed because that is politically unpopular. There is something reassuring in the Eurogroup statement for Greece, the Greek economy and the population: There is the additional commitment to do more if that becomes necessary in the longer term. So I think both sides are trying to find a balance. So we are working on a growth mechanism to make this more precise. In other words, it will be defined what happens if growth falls short of expectations or is better than expected. This is in the interest of both sides, it is a fair compromise. Regarding possible additional measures that were identified by the Eurogroup in May 2016, they are about maturity extension, about so-called ANFA and SMP profits. The Eurogroup statement is very precise on what could be done, although we don't know yet how much will be necessary.

How important is it for the markets to see the IMF participation?

It would be an additional signal that the ESM programme works well. Markets have reacted well the last 12 months to the programme implementation and the different reviews. Yields have gone down quite dramatically to around 3.7 % for 10-year Greek government bonds in the secondary markets. That's a really big improvement. Markets will look for additional signals like our disbursement in February and that all the prior actions are done. They will also look for statements by the Greek government that show that there is a real ownership of the programme. And there are remaining actions that we want to see before the 4th review is concluded in the middle of the year. All that will be monitored by markets very closely. But the IMF decision with regard to Greece is also one of the elements that could play a positive role to further strengthen the good impression that the markets have.

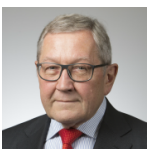
Regarding the capital buffer that the Greek government wants to build before the end of the ESM programme, how big should it be? Should it cover Greece's financing needs for the whole year after the end of the programme?

We are prepared from the ESM to contribute to the buffer in a significant way as part of the next disbursement. This will hopefully begin in February when the remaining prior actions are implemented. €1.9 billion is already earmarked to start building up the buffer. The final disbursement in the summer that will come after the completion of the 4th review, will have a significant amount. Probably the largest amount of that disbursement will be earmarked for the buffer. This could add up to a buffer of something like €8-10 billion coming from the ESM. The expectation is that Greece will be able to add to that buffer through bond issuances: Here we don't know yet how much this will be. Together with the ESM money, this would lead to a sizable buffer as it would cover more than half of Greece's annual financing needs. That would reassure markets. But if market developments continue as they are now, yields are a lot lower than a year ago and if the programme continues to be implemented the way it was agreed, market confidence can be even strengthened. Then there should be no problem for Greece to tap the bond markets. It was always the objective of the programme that in the end Greece, like the other countries, would be able to regain market confidence and to refinance their needs on the market. Additionally, there will be the buffer which will be partly financed by the ESM.

The ESM will disburse a lot less than the programme ceiling of €86 billion. Could Greece have access to the rest of the money after the end of the ESM programme?

The end of the programme is the end of the programme. Money cannot be disbursed after August 2018. Further disbursements would require a new programme and nobody envisages that. The Greek government will not ask for it and I do not see any need for a new programme.

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