

# Klaus Regling in interview with SKAI TV (Greece)

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Interviews

## **Interview with Klaus Regling, ESM Managing Director**

Interviewer: Sia Kossioni

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**Sia Kossioni: Mr. Regling, thank you very much for this interview. Let's start from the clean exit scenario, on which the Greek government is working currently. The Greek government's goal is a clean exit after the end of the programme this August. Are you confident that we can achieve this?**

Klaus Regling: Yes, because there has been a lot of progress recently, implementing the program, continuing with the reforms, it has been possible for the government to enter the markets again, which is important, and this is also what other program countries did, like Ireland, Portugal, Cyprus, to go back to the markets well before the end of the program. So all that is moving along. Of course there are always risks, at the moment markets are quiet, it is possible to issue bonds. But we know markets can all of a sudden become very volatile again. And that can be triggered, not necessarily by developments in Greece, it could be triggered by developments of a geopolitical nature or in other big economies. So it's good to be aware that the ESM has instruments available for such a situation. That doesn't mean that I say today it's needed. At the moment it looks like it's not needed to have a precautionary arrangement. But I think it's very good that we created this possibility, and that's also reassuring for markets and I think also for the Greek population. We do know, and I always talk about a long-term relationship between Europe, the other euro area countries, the ESM and Greece, because we have a lot of money outstanding in

Greece, at very favourable lending terms and other instruments are available if needed. At the moment it doesn't look like they are needed and it would have to be requested by the government anyway. So it's not something that we offer, there would have to be a request and at the moment that looks not like it's necessary.

**Many say that Greece shouldn't take this risk because its economy is still very, very vulnerable. Do you share those concerns?**

It's true. Greece has made a lot of progress on the one hand, but it remains vulnerable on the other. Because it's coming out of a deep, deep crisis. But I think the best assurance, insurance against these risks is to continue with reforms. The reforms that have been agreed and to continue, as I said at the conference, every country in the world needs to implement reforms if it wants to keep pace with the rest of the world. If a country wants to improve the standard of living of its population, every country in the world has reforms on its agenda. And the better that is done, the more convincing these reforms are implemented, the less vulnerable a country becomes.

**Mr. Regling are all the institutions on the same line, as far as the 'day after' is concerned. We're aware of a tension between Mr. Tsakalotos and Draghi in the last euro group. There is also, as you already know, a tension between the Greek central bank and the government about the same issue.**

Well I was in the last euro group, as always. I think these stories about tensions with Mr. Draghi are widely exaggerated. We had a discussion about the recent bond issue and the fact that interest rates have been going up after that bond issue. And that was it, so I would not exaggerate that. Again, the instrument is available, I take note that the governor of the Greek central bank has also pointed out that this is available. And that is correct, it's up to the government to decide what to do. But if markets stay quiet, as they are at the moment, globally, and if Greece continues with the reforms, and that's I think the really important condition. But it's my working assumption that the Greek reforms will indeed be implemented. I have no reason to doubt that. Then, from today's perspective it doesn't seem to be necessary. But we will see and the instrument is available.

**Before we get there, we have a fourth review to complete. Which are the**

**main challenges and please tell us if you are confident that we will be done on time.**

So the good news is that, only last week, a few days ago, the third review was really completed. There was a little bit missing, and that is done. So we can now proceed and prepare the disbursement later this month. We need some parliamentary procedures in some of our member states, that's very normal. But then we can disburse €5.7 billion, and another billion then later in April. But at the same time last week, the fourth review began in Athens with all the institutions. The reports I received from the ESM team were encouraging. That there was good progress, a good atmosphere, to look at the issues. There are 88 prior actions, so there are many things to do. But I don't think they are quite as tough as in the past, the difficult decisions required to bring the fiscal situation in order, to improve competitiveness, that has happened, now it's a question of strengthening the growth potential of the Greek economy, which of course is the ultimate objective. Greece should have again a well-functioning economy with good growth rates and declining unemployment, which means an increase in employment. This is also in the interest of the ESM. We are the largest creditor of Greece, more than half the Greek public debt is in our books. We lent it to Greece at very, very low interest rates, very much below market rate, with very long maturities. The largest repayment would only happen in 2059, 41 years from now. That indicates that there is a long term relationship between the ESM, the European side, the euro group and Greece. And I think this will be a reliable, productive relationship which also gives assurance to the Greek public and to potential investors that Greece is not on its own.

**Since this is the last review we have to complete, are there any margins for delay, for an extension of the program.**

Not really, because extending the program is always politically difficult. It's not totally excluded, but as the situation has really improved, I think we should not even think about it. We have enough time, there was a good start of the review, so I don't see why we should not be able to conclude all this over the next few months.

**And under what kind of surveillance will Greece be after the end of the programme. There is much discussion about this.**

Regling. I know. And I think one has to understand that there are three layers of

surveillance. The first one is the normal surveillance that exists for every member state of the European Union and member of the euro area. All countries are subject to that, to the Stability and Growth Pact, to the Macroeconomic Imbalances Procedure. So also countries like Austria, the Netherlands are subject to that. Including Greece. Second, for countries that have received money from European institutions, like the ESM, there is a post-program monitoring. This applies also to Greece, Ireland, Portugal, Cyprus and Spain. We call it Early Warning System at the ESM, which we have to do, to check on a regular basis that the country is able to repay. So, like the other countries, Greece will be subject to that.

**This means that the representatives of the institutions come to Greece, we have reviews...**

Exactly, so we know that, we do it in the other countries, as I said, like Ireland, Portugal. We go on a regular basis to those countries, together with the European Commission and the ECB, we look at the economic situation, the fiscal situation, policy decisions. This will also happen in Greece. And then there might be a third layer, which is not decided yet. But as we are looking at the possibility of additional debt relief, as was promised by the euro group two years ago, when it was decided that Greece can obtain additional debt relief, if needed, at the end of the programme. That will be decided over the next few months, whether such debt relief is needed. And then surveillance might be tightened because...

**That would need a new programme?**

No, it's not a new programme. It's not a programme, not with additional conditionality, but there are commitments as part of the current programme, that have already been taken. Like maintaining the primary surplus until 2022 at three and a half percent, that's one example. And we would certainly want to check whether this commitment is really maintained. There are also decisions already taken on additional tax reform, pension reforms, coming in 2019, so we want to check whether that is really done. So it's those kinds of things, not a new programme, not new conditionality, but checking that the existing commitments are lived up to and remain in place.

**Mr. Regling, some express concerns about Greece getting back to the old habits. Do you share these concerns and what would that mean?**

Well, I don't know what is meant by old habits. I hope it does not mean running big fiscal deficits, raising incomes faster than productivity, which led, by 2009, to a serious deterioration in competitiveness. That's why the trade deficit, current account deficit, was very, very large – the largest in Europe. Those old habits, hopefully will never come back. Because we know now very well, and I think Greece realizes, that this ended in very difficult situations and required, then, tough adjustment. Adjustment was needed to correct what went wrong the previous ten years. So I hope that is not meant by old habits. But I am confident that together we all have learned what works. The government has implemented now, for many year, important reforms, that make the economy less vulnerable, it doesn't mean that it's not vulnerable still a bit, but much less than a few years ago. We see that growth is coming back. According to all forecasts, it will accelerate this year and be good in 2019. The fiscal house is back in order, competitiveness is back, exports are growing, so that should continue and that is very important. It does not mean that everything is done, I think it's important to continue to strengthen public administration, the legal system, privatization must continue, there are some professions that are still pretty closed, so to look at these all things in order to strengthen the growth potential will continue to be important.

**Mr. Regling, following the figures and given that Greek people are really tired of fiscal measures, can you reassure the Greek people that no more fiscal measure will be needed.**

Yes, I think everything is in place. We know that with the fiscal over performance in the last two years, then in 2020, an already agreed fiscal stimulus package will kick in. So actually the population will see the opposite of what happened the last few years. There will be positive effects coming from the fiscal side and I think it will be important to lower tax rates actually to strengthen the growth potential and that is exactly the...

**Is there room for lowering taxation?**

If developments are the way we project them at the moment - and of course, we know forecasts can always turn out to be wrong. The international environment may be different, but based on our forecast, which is very close to the forecast of the government, if the measures that have been agreed so far, including what happens in early 2019, then there will be room for tax cuts, yes.

## **In 2019 already?**

2019 or 2020. That is very much part of the growth package moving forward and that will be good for the Greek economy.

## **Are there already discussions about which taxes could be lowered?**

There are discussions on that too, and some decisions have already been taken. So, I am confident, based on today's forecast, and one always has to be aware it can change, the world economy might change, so there can always be events outside of the control of Greece, but based on what we know at the moment, there is no need for additional decisions on the fiscal side that are difficult. It's quite the opposite, those should be growth promoting measures.

## **What about the investment environment in Greece? Have we made any progress on this?**

Yes, of course, in the context of all the three programmes, there have been many measures taken to strengthen the growth environment, the economy, I think, has become more flexible, less regulated. That is good, that makes it stronger and less vulnerable. I think that will be the positive legacy of these programmes. The competitiveness is again back. Competitiveness was lost in 2009 after a decade of wrong decisions and it was also negatively affected through the first half of 2015 through some wrong decisions. But now Greece is in a much better position than in previous years.

## **This means that you find the government more investment friendly, recently?**

Regling: I would say that all the three programmes that we have seen have added, have contributed to a better economic situation, to a stronger economy. Then there was some reversal, there were some hiccups and ups and downs, so it was not always smooth. But when I look at all the measures taken over the last eight years, substantial achievements are there.

## **Please tell me if you have any concerns about political instability in Greece?**

No. I don't know how you define political instability.

**Just more tensions in the political scene. Soon we will have elections.**

Yes, but elections are part of democracy, so that's for me not a concern per se. We have been through programmes in other countries like Portugal and Ireland where, in the middle of a programme, there was a change in government. The opposition took over and we then made some adjustment but continued to work with the new government. I think in a democracy, this is the way it has to be.

**Some political enemies of the current government have said that it has been the best partner of Troika. Is it true that after a certain point you loved cooperating with this government?**

I don't know whether the word 'love' is the right one. But it's true that since August/September 2015 we have worked very well with Finance Minister Tsakalotos and Prime Minister Tsipras. We also had good phases with previous governments. Good phases, bad phases. With this government it was a very rocky start, the first half of 2015. So I don't want to say that we can only work with one and not the other. The last two and a half years have been productive, I think, for both sides.

**My last question has to do with the damage made, the first semester made the first semester of 2015. Last time we met, you estimated the damage at about €100 billion. A few days earlier, Mr. Wieser estimated the damage at about 200 billion. What's the truth here.**

I think one cannot have one number. There is not a scientific way to say it's exactly this amount. I take note that the central bank of Greece has estimated the cost at €86 billion. Thomas Wieser thinks it's a lot more. It is a big amount. I think we all agree on that. Serious mistakes were made and therefore we needed a third programme, which was not at all expected at the end of 2014. We know that in 2015 and '16 there was negative growth despite the fact that all forecasts at the end of 2014 expected good solid growth. This means for a long time a permanent loss in GDP, of the economic activities in the country of five to six percentage points every year. This continues until today. The economic activity could be higher today if this first half of 2015 had not happened. Therefore the loss is very, very high. Whether it's 100 or 120 billion or even 200, I think, is less important, it is a very big number.

**Thank you very much, Mr. Regling.**

You're welcome.

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