Klaus Regling in interview with Capital.gr

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Interview with ESM Managing Director Klaus Regling
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Capital.gr: Do you have concerns that the government, after the end of the third Memorandum of Understanding (MoU), might be tempted to delay or even to postpone needed reforms? After all, 2019 is an election year for Greece…

Klaus Regling: First, Greece's programme exit was excellent news. It shows that the often painful reforms and adjustments are yielding positive results. Greece can now join Ireland, Portugal, Spain and Cyprus and become the fifth former programme country to be a success story, if reform-oriented policies continue. Also, I see elections as a normal and welcome occurrence in democracies, not as a problem. Part of the agreement on the programme exit - the last disbursement of €15 billion and the medium-term debt relief measures for Greece - is linked to fiscal and reform commitments for the future that the Greek government made to the European partners. Obviously, we expect Greece to live up to these commitments.

Was Prime Minister Tsipras's speech in Thessaloniki the right message to the markets?

Markets want to be reassured that Greece stays on the path towards a sustainable and competitive economy in the euro area. My take-away from the Prime Minister's speech in Thessaloniki is that overall he gave that assurance. It is very important that he said that he would stick to the targets agreed with the institutions. Overall, it is crucial that Greece uses the exceptionally favourable ESM loan conditions with long maturities and low interest rates to bring down the debt level and to continue the transformation towards a sustainable and competitive economy, by sticking to agreed primary surplus targets and by running very solid budgets over the medium to long term. Available fiscal space should be used to strengthen the growth potential, as the announced corporate income tax cut would do.

Government officials and Prime Minister Tsipras himself have repeatedly said that the reform of the pension system, though voted in the Parliament, will not be implemented. Is this feasible? Or is the reform a structural one, and must be implemented in order to ensure the sustainability of the system, irrespective of the size of the surplus?

As you said, the Greek Parliament approved an ambitious post-programme fiscal package in 2017 and that included the pension reform for 2019. The Greek government had agreed on the package with the Commission, the ECB, the ESM and the IMF. This package was an essential element for completing the second review of the ESM programme, which paved the way to sizeable disbursements and to far-reaching debt relief measures. In June, with the completion of the fourth and final review, the Greek government committed to continue the implementation of all key reforms adopted under the ESM programme. This week the institutions are in Athens for their first post-programme mission within the enhanced surveillance framework. This is the right context to start discussions on the way forward for the policy commitments that the Greek government has taken in the past.

That is a measure that even the pro-reformist New Democracy party will support…

When I went to Athens, I also met with the chairman of New Democracy. From these meetings I know that he is fully aware of the commitments Greece has made, that he is reform-minded and that overall he supports the programme. But as I just mentioned, the current mission is the right context to discuss this issue and the institutions will also meet with opposition representatives.

Do you believe it is the right time for an increase of the minimum wage or is it too soon? Will it hurt the competitiveness of the Greek economy?

Greece is no longer under a programme and therefore, this is first of all a decision for the government. However, this should take into account all relevant factors and follow the proper consultative process. Realigning wages to economic fundamentals during the programmes has contributed to an increase in employment and an improvement in competitiveness in Greece. As an economist, I have the general advice that wages should rise in line with productivity. The fact that wage growth decoupled from productivity growth in the years after Greece’s euro accession was one important reason for the problems Greece then ran into.

Employers’ organizations have expressed concerns about the extensibility of sectoral agreements and the reinstatement of free collective bargaining. Do you agree? Is it too soon, for the competitiveness of the Greek economy, to return to free collective bargaining?

Let’s remember that the labour market related reforms under the ESM programme have contributed significantly to diminishing the high unemployment. Greece is now out of the programme. The government is free to take decisions, also on the minimum wage, as long as the decisions do not endanger the overall targets agreed before the end of the programme.

Interest rates on Greek bonds, even after the end of the third MoU, are still very high. Borrowing is still very expensive. Some think that access to the markets is still very far away. What happens when the €24 billion buffer runs short?

Let’s not forget that Greece has had market access under the programme – in 2014 and also more recently under the current government. The high buffer gives reassurance as it covers Greece’s financing needs for about 2 years. Greece’s interest rates can be affected by events outside of the government’s control, such as the events in Turkey, Argentina or uncertainties about Italy’s future course. But if you look carefully at developments in Greece’s yield curve trends, you see that the interest rates also reflected domestic developments. For example, recent public speculation about a potential decision on pension reform led to higher rates, even though rates reversed somewhat afterwards. Therefore I recommend that the Greek government does all it can to foster investor confidence into Greece’s sustainable future. That is the best contribution to market access.

Is it still possible to envision a precautionary credit line for Greece in the future? Wouldn’t that be a safer way of financing the Greek economy?

Before the programme exit, the Greek government decided that it would not request a precautionary credit line from the ESM. Also, Greece has a very big cash buffer of around €24 billion. So requesting a precautionary credit line is not on the agenda. Of course, in principle all ESM member states can request the use of one of the ESM instruments.

The real challenge for the Greek economy is to achieve high rates of growth in a viable way. Is this possible with the tax burdens imposed because of the high budget surpluses agreed with the country’s creditors?

The tax burden has indeed gone up significantly and that can put a drag on growth. This was the main point of the Prime Minister’s speech in Thessaloniki. So I agree, lowering the tax burden is certainly advisable if there is fiscal space and this can be reconciled with the agreements with the institutions. This is for the government to determine and then to discuss with the institutions.

Turkey and Argentina amplify the warning of economists that a country that defaults, will default again and again in the future. Some believe that a new and drastic haircut of the Greek debt is perhaps needed again. Is it possible?

There is no pre-determined pattern that countries with difficulties will run in difficulties again and again. It all depends on policy choices after the end of their programme. The decisive factor for Greece will also be that it continues to stick to reform-oriented and sound economic and fiscal policies. The European institutions believe that Greek debt is sustainable after the additional debt relief measures by the Eurogroup in June. Also, don’t forget that there is the Eurogroup’s long-term commitment to assist Greece beyond the short- and the medium-term, in case there are major unexpected problems. This is an assistance pledge that no other country has been given.

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