

Klaus Regling in interview with Kathimerini (Greece), September 2022

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Interviews

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Interview with Klaus Regling, ESM Managing Director
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Kathimerini: Last month, Greece exited the enhanced surveillance status. After all those years how ready is it to return to normality like other

European countries? What would you say were the main achievements and where do you see delays?

Klaus Regling: The journey was long. Longer than it should have been. And painful for the population. There were serious problems that had to be tackled during the adjustment. Competitiveness was lost, fiscal and trade deficits were very large and needed to be corrected. But Greece succeeded. Since the end of the support programme, Greece has had a better economic performance than the euro area average, similarly to the other countries that borrowed from the ESM and the EFSF. Throughout the difficulties, we did not lose sight of what was important: creating a sustainable and prosperous future for the Greek people.

Of course, even after the end of enhanced surveillance it is important to continue with the reform path. And this is true for any country. For Greece, it's clear that prudent fiscal policies will be important for the future. The Prime Minister – whom I met for the last time in my current position – confirmed that the primary balance should return to a surplus next year. This is important, considering the high debt level and given that the objective of returning to an investment grade rating is very important for the future.

Would this be your main advice to the government?

It's an important part. Of course, there is more that can be done and that is on the agenda of the government. Greek banks have come a long way, but they need to continue to reduce their non-performing loans. They need to become stronger to support economic growth by providing credit.

State-owned enterprises need to continue to reform to become more productive. HCAP plays an important role in this respect. Insolvency procedures need to be implemented well.

And the judiciary reform is also important. If foreign investors are convinced that the justice system works well, this makes Greece a more attractive investment to them.

Do you think that the investment grade can be achieved soon?

I cannot speak for the credit rating agencies, but we know from their reports and from talking to them, that the fiscal situation is important to them because they have to judge if debt is sustainable. They look at the fiscal path, and the

implementation of reforms, because that will make the growth potential stronger in the long run. And this is a decisive factor to assess debt sustainability.

There may be a chance for Greece to achieve investment grade next year. However, it also depends on how the domestic and international factors evolve.

Do you think they will wait until after the elections? Is political stability an important factor for them?

That is also an important factor, but, again, I cannot say when they will act exactly, and they will not all act at the same time.

Are you concerned that Greece might find itself in a difficult situation again because rising interest rates could derail its debt sustainability?

Not in the next few years, because while Greece has the highest debt ratio in Europe, more than half of its debt is held by public creditors, particularly the EFSF and ESM. Hence, a lot of the Greek debt is financed over very long maturities and at very low rates. That's why the interest burden of this debt is relatively low. In addition, in 2018, we took measures to protect Greece from future rate increases. A certain share of the debt has fixed interest rates that are, therefore, not affected by increases in market interest rates.

It's more important that Greece continues on a prudent, sound fiscal path and implements the necessary reforms to ensure robust economic growth and an efficient economic environment. These are the decisive factors, more than the tightening of monetary conditions.

Overall, with your experience, do you think a good job was done in Greece, that something good came out of this? Do you have any regrets?

The key objective to keep Greece inside the euro area was achieved. And that was a very good outcome. We got very close to Grexit in 2015. When I defended publicly at the time that Greece's third programme could work, few believed me. But it did. Leaving the euro area would have been a real economic disaster for the Greek economy and for the Greek people. It would also have been a political disaster for Europe, not only Greece. It would have changed the nature of the monetary union. That would have made us weaker internationally, economically, and politically. We are stronger together.

Would you have done anything differently if you were to start again from the beginning?

We were not prepared for the euro crisis. When you are learning by doing there are always things that, in hindsight, could have been done differently. Most observers today agree that the Greek debt restructuring in 2012 should have happened earlier. But we did not have the mechanisms in place. It was the first time that something like that happened in a monetary union. We were living unprecedented times.

Today we are much better prepared; and at the ESM we take the lessons learned very seriously. We constantly work on improving our knowledge and preparedness.

The Stability and Growth Pact is now under review. What should be the main principles of the new Stability Pact?

The most important thing to remember is that we need a fiscal coordination mechanism in the monetary union. We have a centralised monetary policy, but a decentralised fiscal policy, which needs to be coordinated. This should be done in an efficient way; it should not be too complicated. That is one of the problems with the existing Pact. It has become so complicated that many people do not understand how certain decisions are made and that's not good for credibility in national parliaments and financial markets. The Pact should be simpler, better understood, and should remain true to its main objective: to maintain debt sustainability in all member states.

Are you concerned that Europe would fall into recession soon?

The situation is not easy. Most economists expect that in the next 2 to 3 quarters, we will experience negative growth rates. Some observers, particularly in the markets, warn that we might even see a recession for the whole of 2023. This is not a consensus view, but we need to be prepared that the next quarters will be difficult. Energy prices are high and there is scarcity in energy supply, which could lead to a decline in production. Households' purchasing power is declining, which depresses consumption, and consumption is the biggest part of the economy.

At the same time, it is important to acknowledge that it's not all 'doom and gloom'. We had better growth in Europe than was expected during the first half of the year and this is also very much true for Greece. Actually, we have seen Southern Europe doing particularly better than Northern Europe this year, largely driven by a very

successful tourism season. Also, we see a very strong labor market in most European countries, with the unemployment rate for the euro area at the lowest since the beginning of Monetary Union. Another positive factor is that the measures that were adopted for the pandemic, in particular the recovery and resilience fund, are also helpful now during the energy crisis.

Overall are you satisfied with the European response to the war and energy crisis so far? There has been criticism that the response has not been as decisive as it was during the pandemic. That Europe is running late, not doing enough for its citizens, and is the big loser of this war. What do you think?

It's not true to say that countries have not done much. They have done a lot.

This is a different situation than the pandemic. We are facing a loss of income through the terms of trade loss, which cannot be compensated. Fiscal policies must support vulnerable households and companies but cannot compensate fully the loss in income for everybody. Measures need to be targeted. The energy crisis has to be solved mainly at the country-level. You cannot keep on creating new funds at a European level.

But common policies can be adopted.

That's different. Coordinated energy-saving policies are indeed critical, as they can soften the shock to the economy and facilitate an efficient allocation of resources. Coordination could have happened a bit earlier, but it is happening now. The Commission will come up with proposals and all countries are now, more or less, moving in a similar direction.

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