Klaus Regling in interview with To Vima (Greece)

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Interview with ESM Managing Director Klaus Regling

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Interviewer: Angelos Kovaios
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To Vima: One could say that the ESM wouldn't exist without Greece, even if that's a little bit exaggerated. How different is the role of the ESM now, after all these years and as we are getting prepared to face a new crisis?

Klaus Regling: Picking up where you started, you are right. The ESM and Greece have a very special relationship, because the ESM has disbursed almost €200 billion to Greece over the years, at very long maturities and low interest rates. That's also why we have a very clear interest in a healthy, long-term development of the Greek economy. But I wouldn't go as far as saying the ESM wouldn't exist without Greece. Because when I look at the history of what happened ten years ago, the first loans from us were actually given to Ireland and Portugal, before we started supporting Greece. The euro crisis was characterised by serious macroeconomic misalignments in four, five, six European countries. This crisis now is an external shock that hits all countries in Europe and actually around the world, it is not triggered by any wrong economic developments, by macroeconomic misalignments or policy mistakes. That is why the response from Europe and also from the ESM is very different this time. Money can be made available without conditionality because there is nothing that needs to be corrected, unlike ten years ago.

How will the ESM Pandemic Crisis Support work and what are the benefits of it?

The Pandemic Crisis Support makes available, if asked for it, a precautionary credit line of 2% of a country’s Gross Domestic Product (GDP). If all 19 euro area members were to request it, which I do not expect, it would add up to €240 billion. For Greece 2% of GDP would be around €3.7 billion. Unlike ESM programmes in the past, today there are no misalignments, no macroeconomic imbalances, so no need for any corrections. That’s why the facility the ESM can make available now is earmarked for health expenditures and that is the only condition, nothing else. If drawn, the interest rate would be very low or even negative. In that case, a country would get paid for drawing the credit line. It’s up to countries to ask for it, it will be available until the end of 2022, so there is enough time for countries to consider it if they think that it makes sense.

The debt issue is for Greece a huge one. Ahead of a new crisis, it will certainly be even bigger. How do you see Europe dealing with the debt issue, in the case of Greece but also in general?

That is right, the pandemic crisis made fiscal actions unavoidable and this may lead to a situation where the debt level in terms of GDP will be 20-30 percentage points higher in every European country, so it’s not only a Greek issue, it’s a general issue. We had a similar situation after the global financial crisis in 2008/09, where also on average the debt went up by 20 percentage points in terms of GDP. For some countries of course, where the starting point is already a high debt level this is not easy. But that’s why it’s so important that Europe came together and decided to provide money to all member states to get out of the crisis. The different facilities of the Commission, the EIB, the ESM are all designed to provide more money to those countries particularly affected by the pandemic crisis and don’t have so much fiscal space to help themselves. This should also help Greece to have money to implement reforms, to have more investment. That is one way to deal with the problem of rising debt after the crisis. The other approach is of course that the money, if it’s implemented well, should lead to a higher growth path in the future. And that is of course the best way to grow out of a debt problem. With the additional money, it should be easier than without that money.

You recently warned the Greek government of the fiscal hazard, caused by the thousands of pending pensions. Was there any response and commitment that the problem will be solved?

I did not warn about a “fiscal hazard”. But if pensions are not paid on time, the impact on the economy is negative, because demand will be lacking, and there may be unnecessary social hardship. Given the size and depth of the problems, we understand that clearing fully the existing arrears and establishing normality takes time. However, we are encouraged by the fact that the government is putting in place an ambitious plan to tackle the structural issues that cause delays with pensions.

Wouldn’t the pandemic provide a chance for all the reforms needed, at a national and European level including the Economic and Monetary Union (EMU)? If not now, then when?

I agree. We are not happy that the pandemic is there, but given that we have this crisis, it can work as an accelerator, also as was said at the podium of this week’s Economist conference by former French President Hollande and former German Vice-Chancellor Sigmar Gabriel. It can have this positive effect, by accelerating reforms, also accelerating European integration. So we should really move in that direction. Of course, the other reason why many governments and people are more in favour of more European integration now, including the deepening of Economic and Monetary Union, is that we know that the United States is moving away from multilateralism. I think the awareness is growing that we should strengthen the role of the euro in the international monetary system. The US dollar will continue to play an important role, but the importance of the Chinese is growing rapidly and the euro should be the third major currency in the international monetary system With the right policies in our currency union to underpin the euro, we can achieve this.

Is there a way back to strict fiscal policies for Europe? How would that be possible?

We are now in an exceptional situation. The average fiscal deficit in the euro area this year will be almost 10% of GDP. That is the biggest deficit ever, outside wartime. Next year, in our baseline scenario, it will drop to 5% of GDP and one cannot go too quickly to lower levels. I think this balance is about right, between providing fiscal support and keeping in mind that there is a long-term issue of debt sustainability. I subsequent years, once growth is back, deficits have to become smaller. Otherwise many countries would get into debt sustainability problems. All this will not be easy and for countries with high debt levels it will be more difficult. But looking at Greece, not everything looks negative. The money provided by the ESM, which is more than half of the entire Greek public debt, comes at very low interest rates. This helps Greece, despite the high debt level, to have relatively low debt servicing payments every year. We have estimated that with our help, with all the money we provide at very low interest rates, the Greek budget saved €14 billion in debt servicing payments in 2019 alone and will save similar amounts in the years to come. This helps a lot of course, in making the high debt level manageable. But we also have to make sure in the long run, that Greek debt remains sustainable and we will continue to discuss this with the Greek government.

You referred to the Greek recovery plan, the proposals of the Pissarides Committee in your speech at this week's Economist Conference. How do you assess it? Is it enough for the Greek economy to recover? And the most important of all: implementation. There have always been reform proposals, but not much has been implemented.

Of course we have looked at the proposals of Professor Pissarides and his team. They focus on the right problems, like decreasing labour cost, strengthening public sector institutions, increasing labour participation, in particular female participation, which is low, more investment, more openness of the economy. So we will support that and as the finance minister said at the Economist conference, the national recovery plan will pick up many of these points. And I think the Prime Minister at his speech in Thessaloniki, also picked up some of the points already. One of the announcements was to decrease contributions to the Social Security Fund. That is one way to decrease labour costs which are very high. I think the Pissarides report touches on many of the important issues and I would expect that several of them would be picked up in the National Reform Plan.

Talking about reforms, and regarding the pandemic, wouldn't you agree that one of them would be to decrease the dependency of the Greek economy on tourism?

I think that's exactly also where some of the measures recommended by Cristopher

Pissarides would lead to. Stronger institutions or more openness of the economy mean that there will be more investment and activities in other sectors. Tourism will always continue to be an important sector, and hopefully after the crisis, which was so deep this year. There will be a normalisation. But clearly investment will focus on other areas of the economy.

Do you think that part of the money from the Recovery Fund could be used in the defence sector or for strengthening the defence industry, especially in a country like Greece, having the problems we have with Turkey?

I will not interfere in the discussion on defence spending, that’s up to the country. But the way I understand the Recovery Fund, the money should be used for investment and reforms. I am referring to investment that raises the growth potential. But of course when money from the Recovery Fund is used for that purpose, it may release money for other purposes.

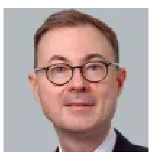
You talked about the Greek banking system. There is a talk about the big problem of non-performing loans (NPLs). Why do the European Institutions oppose the creation of a “bad bank” as a solution to the problem?

I don’t think they oppose, but let me start from the beginning. The Greek banks are stronger today than ten years ago. They made good progress as well in decreasing the NPLs. But still, even with this progress, the level of NPLs as a percentage of bank assets is by far the highest in Europe. Now we know that with the economic effect of the pandemic, with the drop in GDP, whether it’s 8% or a little more or a little bit less, will have an impact. NPLs will go up. I don’t know by how much, but it’s unavoidable and all countries will see an increase in NPLs. So some of the progress that we have seen will be reversed. To have a national asset management company is another option that the Central Bank of Greece is proposing and you cannot say that Europe is refusing that. But it has to be tailored in a way that is compatible with the European regulations, in particular with state aid rules. We have seen that this is possible in other countries. I know that the Central Bank together with the Greek government will submit a plan to the competition authorities of the European Commission very soon. Then we will see whether they find the Greek proposal acceptable or not. It’s their decision, I’m not part of that. But the process is moving and we will see. It has worked in other countries, it’s a question of the design.

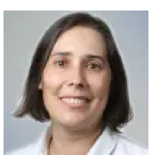
Author

[Klaus Regling](#)
Managing Director (2012 - 2022)

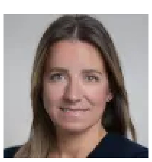
Contacts



Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu



Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu



Juliana Dahl
Principal Speechwriter and Principal Spokesperson

+352 260 962 654
j.dahl@esm.europa.eu