Klaus Regling in interview with Ta Nea (Greece), January 2022

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Interview with Klaus Regling, ESM Managing Director
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Ta Nea: The ESM was born out of the euro debt crisis. If you look back at the genesis of the ESM, how critical was the situation at the beginning of the last decade?

Let me go back a little bit further to answer your question. In the original institutional architecture of our Economic and Monetary Union (EMU), there was no lender of last resort for euro area countries. Once a country had fulfilled the Maastricht criteria and adopted the euro, it was unthinkable it could lose market access.

But the unthinkable did happen at the beginning of the last decade. Several euro area countries were unable to raise money in the market and needed urgent financial assistance. The situation became very serious. The only existing international institution at that time with a mandate to act – the International Monetary Fund – didn't have sufficient resources to cover the affected countries' financing needs.

Something had to be done fast to support these countries. It was necessary to establish a crisis fund that could provide emergency financing to its members. That's how the European Financial Stability Facility, or EFSF, was established on a temporary basis in 2010. The European Stability Mechanism (ESM) followed in 2012.

Since 2012, the ESM has provided financial support to several euro countries, Greece, Ireland, Spain, Portugal, and Cyprus. Greece needed the longest support and had the most difficult ESM bailout. Why?

The problems in its economy were much bigger – on the fiscal side, on the trade side and in terms of loss of competitiveness. And so, the size and duration of its financial assistance programmes – the largest the world has ever seen - was bigger as well.

But Greece has come a very long way since then. And although some risks remain, the country has improved its competitiveness, modernized its public sector, rebalanced its pension and tax systems and consolidated its public finances. It regained market access at very reasonable interest rates and was doing quite well until the current covid-19 crisis hit. A key success was that the country stayed in the euro area, which benefits all its citizens.

We were able to keep every country in the euro area, achieving our ultimate goal. If the EFSF and the ESM had not been created and if countries had not addressed their problems, they could have been forced to leave and Europe would look very different today. That was prevented.

How close was Greece to leaving the euro area in the summer of 2015?

At the time, it looked like a real possibility. In June 2015, Greece was very close to the edge. The rift between the Greek government and its international creditors was wide. Grexit was very close, but I am very happy that it was prevented, also thanks to the ESM and the European framework put in place during the previous crisis as I mentioned before.

How would you assess Greece's development after the end of the 3rd programme?

The Greek economy was doing well before the Covid-19 pandemic outbreak. The trend was quite positive. While all European countries suffered with Covid, Greece was particularly hit given its dependence on tourism. The government has provided comprehensive and timely support to citizens and companies. Thanks to that response, Greece managed to recover strongly from the pandemic, with the fastest yearly GDP growth rate in the entire euro area last year. But the pandemic is not over, and some uncertainty remains about how it will develop and affect the economy.

The Resilience and Recovery plan is a historical opportunity to continue reforming the economy, making it more resilience, and better equipped for the digital and green transitions. Greece is one of the biggest beneficiaries of the NGEU programme. Implementation, as in all countries, will be key.

Greece is suffering more than other EU-countries from inflation and high energy prices, slowing down the reconstruction of the Greek economy in addition to the pandemic. Do you consider the development of the inflation to be temporary?

This is something that the ECB is looking closely at. I agree with the view of the ECB that the recent acceleration in inflation is to a large extent the result of temporary factors, in particular the strong rise in energy prices, supply bottlenecks and certain base effects. The question is whether there will be second-round effects from wages in the medium term. We see some signs of that in the US and the UK, but not yet in Europe.

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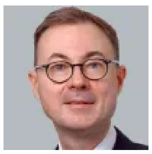

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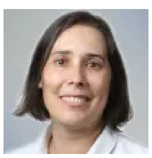

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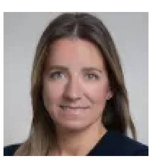

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