

Klaus Regling in interview with ERT

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Interviews

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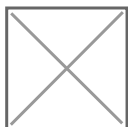
Transcript of interview with Klaus Regling, ESM Managing Director

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Interviewer: Rallou Alexopoulou

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ERT: Mr Regling, welcome back to Greece. Thank you for speaking to ERT. I would like to start with something that we expect to happen in October. After twelve years, your term of office at ESM is coming to an end. Are you going to miss it? And what was the most difficult and the easiest decision you had to make?

Klaus Regling: Well, thank you very much. Yes, indeed. Twelve years is a long time and many, many things happened during this period. I had the privilege of building up the two rescue funds: the EFSF first, and then the ESM two years later. And I think the two institutions have contributed to making the euro area stronger and more resilient. And of course this was only possible because the countries that had problems ten years ago, including Greece, but not only Greece, also adjusted their economies, and created the foundation for better economic performance in the

subsequent years.

And the most encouraging part for me is that this approach has really worked. Greece has had very good economic performance since the end of the programme. Of course everybody was affected by the pandemic and we are all facing new risks now with the war in Ukraine. But apart from that, I think Greece has taken a very positive development and growth earlier this year was very strong.

When you ask me about difficult decisions, there were many difficult moments. The most difficult one is related to Greece when in the middle of 2015, it came very close to leaving the euro area. Grexit was very close and that was a difficult moment for Greece but also for the euro area. And I'm very happy that it was possible to avoid that. It required another programme with the ESM, but the positive results are visible now.

And the easiest?

Nothing was easy.

You referred to the war in Ukraine, but at the beginning of this war it was believed that the rise in inflation might be temporary. The war continues and we see inflation rising up every month. In Europe, there is talk of the chance of stagflation - how likely is this scenario?

I think in our baseline scenario - and baseline scenario means that's the most likely scenario of economic developments - all the international institutions, the European Commission, the European Central Bank and also financial markets agree that Europe will have good growth for this year. The problem is that there's a risk scenario also and there's not much we can do to make sure that this risk scenario does not happen. It depends basically how the war in Ukraine develops, whether it escalates, whether energy imports from Russia might stop for the European Union. And if that happens, we know then we are moving into a recession. This is not our central scenario, but everybody is aware that this risk scenario exists, so it's better to be prepared for that.

But at the moment, in our central scenario there is no recession, there's growth for this year because there is strong momentum coming out of the lockdowns. In Greece, for instance, the tourism sector is doing very well right now, and that will help. And also countries like Greece and Portugal and Spain benefit from all the reforms that were implemented during the ESM programmes. We see the benefits of that. Then we have the support for reforms coming out of the European Commission's Next Generation EU programme, the Recovery and Resilience Facility, which promotes reforms and public investment. All that is positive. But unfortunately, there are these risks which may happen, but we hope not.

You said that you do not expect recession this year. What about next year? Because I know the uncertainty is very high. But can someone predict what will happen in 2023?

No, I think it's impossible to predict because it will, to a large extent or entirely, depend on the war in Ukraine, whether it escalates or not, and on the energy situation. And that is outside our control. So one cannot exclude that. I can only quote the head of the International Monetary Fund, Kristalina Georgieva, who also said that she cannot exclude a global recession. It is not only a European issue, it's a global question. She said she cannot exclude a global recession next year, and I think that's the right way to put it. We cannot exclude it. We hope it can be avoided. It depends on circumstances where we have very little influence.

I would like to ask you about Greece. At the last Eurogroup, an important milestone was reached and we expect the enhanced surveillance to end on 20 August. What does this mean for the Greek economy, the Greek people, and what are the main challenges for Greece in the months to come?

I think this is another milestone in the normalisation process. Greece left the last ESM programme in the summer of 2018, and enhanced surveillance was in place because of the high debt levels of Greece and also because Greece continues to benefit from certain additional steps on debt relief measures, in order to make Greek debt sustainable. And these additional disbursements were linked to enhanced surveillance reports.

So we are coming to an end of that, and that is justified because Greece has made very great progress over the last few years. Most of the policy commitments given in 2018 have been followed up with. Of course, the reform agenda never ends. That's true for every country, and therefore we hope for additional reforms. But the government is committed to that, and particularly in the context of the Recovery and Resilience Facility, where every European country has made reform commitments in order to obtain the substantial funds out of the Next Generation EU package. So I think that is a good framework. It will continue to help Greece.

The ESM is the largest creditor of Greece. Of course we continue to monitor economic and particularly budgetary developments because we will receive debt service payments one day. That's in the future; one day we want to be repaid. The €200 billion that the EFSF and ESM disbursed to Greece has to be repaid eventually. But the maturity is very much longer than for any other country. That helps Greece, and it also helps Greece to save interest payments, which will be a relief for the Greek budget. So all that will continue in a way that's good for the Greek economy and the Greek budgetary situation. But we will monitor to make sure that the repayment can happen eventually.

The Greek government expects the bonds issued by the country to return to investment grade in 2023. Do you think that is possible?

I think it's possible because we have recently seen another upgrade from a rating agency to one notch below investment grade. So it is possible, but of course it requires a continuation of the reform agenda and a credible fiscal path. But this is what the government is committed to do. So to answer, yes, it is possible, but it's not guaranteed.

What comes for Mr Regling after October?

A long vacation.

Mr Regling, thank you very much.

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