

Transcript of Klaus Regling's interview with ERT (Greece)

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Interviews

Transcript of interview with Klaus Regling, ESM Managing Director

ERT (Greek TV station), 19 June 2017

Interviewer: Rallou Alexopoulou

ERT: Mr Regling, are you satisfied with this agreement with Greece at the Eurogroup?

Klaus Regling: Yes, I think it was an important step to find this agreement by consensus at the Eurogroup, because after national procedures in some of our member states, it will allow us to make a significant disbursement to Greece in early July, so that the Greek government can do the debt service payments, which are substantial later in July. It will also allow Greece to repay domestic arrears, so the arrears clearance process can continue, and even allow the build-up of a reserve buffer, which is important for market confidence. So I think this is an important step; it's not the end of the programme. As the Chairman of the Eurogroup said, we have one more year to go together in the existing programme, but this was the important step that was needed now.

You mentioned market confidence: when do you think it's the right time for Greece to return to the markets?

I don't know about the exact months, but I think late this year or early next year, it may well be possible to go back to the market, if they stick to their commitment to the reform programme, because markets look carefully at what is happening; is

there ownership of the programme, will the government continue to implement what was agreed with the Eurogroup and the ESM? And if that is the case, I think it makes sense to go to the markets, also that's the experience we have in other programme countries like Portugal, Ireland, and Cyprus. They also went to the market several months before the end of their programmes, which makes sense, because the countries have to see how the markets react to that, and it would not be good to wait to the very end of the programme and then go at that point. So I think late this year or early next year will be a good moment to try.

If not, if we can't return to the markets until the end of the programme, how can the ESM help Greece?

We have more than a year – 14 months – to go. And as I said, if the programme is fully implemented, if that continues, at the moment we are very happy with the last decisions that were taken, the progress is significant, fiscal consolidation has been very strong, last year Greece already had a fiscal surplus, the agreement is that the primary surplus this year should be around 1.75% of GDP, next year 3.5%, that's also the basis why the Eurogroup agreed on more concrete ideas about possible debt relief later next year. I think all this coming together, of course based on the assumption that reforms continue, I have little doubt that market reaction will be positive.

Until now, the IMF has not participated in a programme in principle with a developed country. What message do you think that sends to investors?

I don't think the IMF distinguishes in its policy approach between developing countries and more mature economies. So this is part of the toolkit of the IMF, who have an agreement in principle when they are waiting for more precise statements from creditors about possible debt relief. So that's independent from the status of a country. It is something the IMF has done before; I think what is important now – it was important for the Eurogroup and it's important for the markets – is that we are all fully in line, all four institutions (the ESM, European Commission, ECB and IMF) on the policy package. We are all happy with the policy package that was agreed in the last few months and adopted by the Greek parliament, and that will be implemented now. It's important to signal that it was the basis for the Eurogroup to act, to release the next tranche, and I think the markets will also look at that favourably.

What results have the short-term measures brought so far? Can they be further strengthened?

The volume of the short-term measures is well defined. We have implemented several of them; those that are market-related are ongoing, because we know it takes about a year to implement them fully. But the overall size of the short-term measures is clear, it will not be extended, because these are measure to reduce the interest vulnerability of the Greek economy. And there are also some measures which have already been adopted to help with debt service, like the cancellation of a certain interest surcharge. This saves money this year for the Greek budget. So we are well advanced and over time it will reduce Greece's debt-to-GDP ratio and gross financing needs by significant amounts. But we know it's only one part – yesterday there was more precise discussion on possible medium-term debt relief measures, which may come at the end of the programme.

We all know it was the approach already adopted last year, and importantly I think for the Greek population to understand, there is a long-term commitment from the Eurogroup to be ready to help more in the long term, if there are unexpected developments that make life for the Greek economy difficult. I think this is a very valuable commitment that other countries don't have outside Europe. This shows the ongoing solidarity that the Eurogroup is doing and showing towards Greece in the past, now and in the future. When I look at what happened in the past, it's quite significant that not everybody may be aware how much debt relief has already been granted by private and official creditors. And with our low interest rates from the ESM, the Greek budget saves almost €10 billion every year – this is a real saving every year, which is a very large amount of money. It may not be so visible, but it's really there, because the debt service from the Greek budget in terms of GDP is less than many other countries have to do. This is the result of the solidarity that the euro area is showing towards Greece.

Since the first rescue programme in 2010, we have heard that Greece should take ownership of the programme. Could you tell us in simple terms what this means?

Yes, you are right, "ownership" is mentioned very often, and I also think it's important to see this ownership. It means that everybody in the government, in the wider public, is supporting the programme. And we see sometimes that we work very well together with finance minister Tsakalotos, but some other ministers in the

cabinet sometimes question measures that have been agreed - certain privatisation measures, for instance. And that gives a signal to markets and to the wider European public that the Greek government is not fully behind the programme. And that is not good for confidence.

Do you think the time has come to turn the ESM into a European monetary fund? I would also like to hear your opinion on the Commission's reflection paper on deepening the Economic and Monetary Union.

There is a broad debate about strengthening monetary union. It's good to think about it. First, one should remember that a lot has already happened. Since the crisis started in 2009/2010, we have done a lot in the monetary union that helps already to work better than before the crisis. One example is the ESM, but we also have the Banking Union, which started three years ago. We have stricter and broader policy coordination, policy surveillance. And importantly, the countries which lost market access like Ireland, Portugal and Cyprus have done their homework are now success cases and have very good market access. And I hope Greece can join this group of successful countries later next year. So a lot has happened, but it's good of course to think what else is really needed to make monetary union work better, and there is a reflection paper that the European Commission put out; the European Parliament has talked about it, several governments in Europe have very precise plans, and after the election of president Macron in France, this debate is getting very broad. So I don't know exactly what will happen, but in my view it would be important to complete Banking Union. This is also something the European Commission talks about, because we know there are certain elements still missing in the Banking Union to make it complete. One is the backstop for the Single Resolution Fund, the other is a European deposit insurance. We know it can only happen when the pre-conditions are in place: de-risking, dealing with legacy issues in some banks, because at the moment, one cannot expect that certain countries pay for old problems in certain banks in other countries. But as a vision, as an objective over the next couple of years, I think completing Banking Union is a very important element.

Another one is Capital Markets Union, which would really promote financial integration in Europe, particularly in the monetary union. It's complicated, it's complex; politically it's not very controversial, it's just complicated to do it. Many countries have to change legislation, for example to harmonise insolvency laws,

which are very different, and in some countries have developed over centuries. So it's an important issue, but not very easy to solve. And there's also the debate what to do with the ESM; many people have argued that we should take on broader responsibilities, which I think may well happen. I think after the end of the current Greek programme – later next year, whenever we have a next crisis case, which I don't predict for the near future, we will probably do it without the IMF, so in that sense the ESM will take broader responsibilities and may broaden its mandate.

And what about having a minister of economy for the Eurozone?

That is another proposal that has come from several sources, including the Commission, for the longer run, I don't think immediately. Because I think it's important first to define what such a European, or euro area finance minister should do. There are several areas that are possible – one would be to coordinate the representation of the euro area in international fora, like the IMF, the G-20, G-7. Another is if we get fiscal capacity, a fiscal budget for the euro area separate from the EU budget, then it would also make sense to have a finance minister in charge of that. So I think we need first to define the tasks of such a finance minister before creating the job.

In 2017 we had elections in the Netherlands, France, the UK. What do the results indicate for the future of Europe?

I think after the Brexit vote last year and the election of president Trump, everybody was a bit nervous that the populist and anti-European movements might become stronger. But the recent results in the Netherlands and France have demonstrated that this is not the case. It's actually quite the opposite in France – a very committed European was elected, who spoke very openly about his ideas for Europe. And it was a clear alternative to the populist party in France and the result was very clear. In the Netherlands also. It doesn't mean that these populist movements have disappeared, but they are much smaller than people were afraid. So I think that's a good basis on which we can build and go forward and have a discussion on where to find the consensus to strengthen the euro area, to make it more robust and less vulnerable to future crises.

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