

# Klaus Regling in interview with Proto Thema (Greece)

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Interviews

## **Interview with Klaus Regling, ESM Managing Director**

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Interviewer: Argyris Papastathis

**Proto Thema: The Eurogroup Working Group has been working for quite a while now on the fresh debt relief measures for Greece. The private creditors took a haircut of 54% in 2012 and the official creditors lengthened the maturities and among other actions, there was an interest deferral for ten years. Is this enough?**

Klaus Regling: Well, that goes a long way because it has really helped Greece in the last few years. And it will continue to help Greece over many years to come to service its debt, because without that action in 2012, the debt today would be unsustainable. So what happened in 2012 was very important, from both sides, the private creditor side and the official creditor side. We have estimated that only the part from the official side, including ESM loans with very low interest rates, saves the Greek budget almost €10 billion, so about 5.5% of GDP, every year. Additionally, the haircut of the private creditors helps make the debt sustainable. That's important to keep in mind when we look to the future. As the euro area finance ministers already said in 2016 and again last year, they are prepared to look at additional debt relief

measures. At the ESM we implemented the short-term measures last year. They were designed to make Greek debt less vulnerable in case interest rates go up, which is what markets expect. And those measures on their own already reduce the projected debt-to-GDP ratio in 2060 by 25 percentage points of GDP. The medium-term debt measures are possible, if they are needed, as the euro finance ministers said, and if the Greek government continues reforms. So the decision will only be taken towards the end of the ESM programme, before August this year. We will then have a final debt sustainability analysis and based on that we can decide whether additional debt relief is necessary and how much.

**Will there be conditionality if additional debt is decided at the Eurogroup in June as mentioned by Mr. Moscovici?**

One has to understand several things: First, every country that is a member of the European Union and a member of the euro area is already subject to some surveillance, like the Stability and Growth pact and the Macroeconomic Imbalance Procedure. That also applies to Greece. Second, every country that received a loan from the EFSF or the ESM is subject to post-programme monitoring and the ESM's Early Warning System. Also, this will happen in Greece. Third point: If there's additional debt relief, there might be some additional surveillance, some kind of tighter surveillance.

**Moving on to the next stage, there seems to be a difference in opinion between the Bank of Greece Governor Mr. Stournaras and the Finance Ministry in Greece. The issue is whether Greece needs a precautionary credit line from the ESM, actually the ECCL was mentioned in the Eurogroup back in 2014. At Delphi you said that your toolbox contains credit lines but Greece has to formulate a request. My question is do you think Greece should formulate a request?**

The ESM has many tools available that can be used if that is appropriate and necessary. They can only be activated if the government makes a request. The possibility of using a precautionary arrangement was indeed discussed at the end of 2014 when it looked like Greece might not need another full programme. It was also discussed in the case of Ireland and Portugal during the final months of their respective programmes. So it's a normal discussion because the advantage of having a precautionary arrangement is that it anchors the policies of the

government for longer. It gives more assurance to the markets, to the population, to investors, Greek and foreign. That's the advantage. But it very much depends whether it's really needed. In Ireland and Portugal, in the end it was not needed because the markets were fairly quiet and positive about those countries. At the moment, I also see that markets look positively at Greece, with the assumption that reforms continue and that there's no backtracking. But of course markets can change very quickly, either because something goes wrong in the country, or because something goes wrong somewhere else in the world. There can be geopolitical risks, not caused by any developments in Greece. Therefore it's good to have the precautionary credit line available. I think that in itself is already a positive for the markets. They know that if something goes wrong Greece is not on its own. If everything remains quiet, reforms continue and Greece continues to develop its market access, then based on what we know today it's probably not needed.

**A politically sensitive issue is the activation of the so called pre-legislated package of measures, and not so much the tax reform but mainly the pension reform which is due to kick in at the beginning of 2019. Since Greece is moving out of the ESM programme, does it have room for renegotiation of those measures given the fact that 2019 is an election year?**

I know that those measures are not easy but they are very much part of the ESM programme. They were agreed together with other decisions taken as the basis for disbursements that we have done in the past. They are important to bring the different institutions together, including the IMF. And as you know, if the fiscal developments continue to be as positive as they look right now, then at the same time another package will kick in with expansionary fiscal measures. That would help the population and the economy. So I think it would be against the agreement to cancel one of these measures. If the pension reform is cancelled, then the rest also collapses. This is a package that was agreed and I assume that it will be implemented.

**Does the same apply to the minimum wage debate that has started?**

There I think it will depend on overall developments, including fiscal developments because there are no firm decisions as far as I know. So therefore, that's something one can talk about but the government should not do anything that might jeopardize

employment creation.

**You have said in the past that the first six months of 2015 may have incurred a cost of up to €100 billion. Two days before your speech at Delphi, Thomas Wieser reiterated his estimate that the cost of that period may have been up to €200 billion. Do you have a comment on this?**

We all agree that the cost was very high, that policies went in the wrong direction for half a year of 2015. The Greek central bank has made an estimate that is published on paper of €86 billion. So my estimate is close to that but there's no one scientific way to come up with one number. We know it was costly: First, it implied a big third programme. A second element is that GDP levels even today are lower than they would have been without these experiments during the first half of 2015. I remember very well that in December 2014 all the international institutions, not only the troika and ESM, also the World Bank and the OECD, estimated growth in 2015 and 2016 would be between 2 and 3 percent. Instead, we know that in those two years, growth was again negative and this is a direct consequence of the wrong policies during the first half of 2015. So Greece continues to have every year a GDP level that's five or six percent lower than it could have been otherwise. That makes the cost of the wrong decisions in the first half of 2015 very high.

**Do you think the IMF will activate its programme and agree on a common DSA (debt sustainability analysis) with the ESM and the other European institutions?**

I hope so, we are working hard on that. We will both produce - the IMF and the ESM - a new DSA, based on the most recent data and policy decisions. We'll try to converge the two. To have the IMF on board will give foreign investors and domestic investors and the general public in Greece confidence that the country is on the right track. So it would help, but I cannot say at the moment whether we will succeed. But we are working on this.

**We have heard the scenario many times that at some point the ESM could buy the debt obligations of Greece towards the IMF. Is it a credible scenario?**

Nothing is decided because that would be part of the medium-term debt measures.

But it is correct that the statement from the Eurogroup of 2016 mentions the possibility of liability management which could include the use of ESM resources to buy-out other creditors. We know IMF loans are expensive compared to ESM loans. Buying them out to do that kind of liability management would improve Greece's debt sustainability. Therefore this option might well be under consideration. But the decision will be subject to the conditions the Eurogroup mentioned: That additional debt relief is needed and reforms continue. The decisions will only be taken towards the end of the programme.

**Eurogroup president Mario Centeno said in an interview recently that as we go through a transition between political and electoral cycles in Greece, that it's important that the next government keeps the feeling of ownership of the whole process. We have heard that Greece is preparing its own programme. How important is this for the ESM?**

It's very important because with the exit in August, there's no more programme, no more MoU. So this will be over, except for certain pre-legislated decisions that we already talked about and that will kick in 2019. Overall, after the end of the ESM programme, it's up to the Greek government to develop its own economic growth strategy. We know that the government is doing that. That's very positive. Finance Minister Tsakalotos was encouraged in the Eurogroup to do exactly that. I'm confident that there will be something at the end of the programme that will give Greece a direction to follow and that's very important. And it's good that it comes from inside the country because it will be in a new situation. It will be up to Greece to determine its future, and of course we are happy to give advice, with the European Commission, the IMF, like we do with all member states. The European Commission gives every member of the European Union policy advice, also to the Netherlands and Germany for instance. So that will continue. But it will be up to the Greek government to decide on the package and how to implement.

**When was Greece closest to Grexit? Can you remember a point when you were really worried that things could go wrong?**

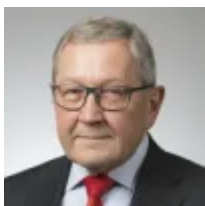
The closest the country was to Grexit was in the summer of 2015, when Greece defaulted on the IMF and there was the question whether there would be a third programme or not. This was decided at a dramatic summit in July 2015. The heads of state and government of the euro area negotiated through the night with Prime

Minister Tsipras. At the end there were Tsipras, President Hollande from France and Chancellor Merkel from Germany and Council President Tusk. I was not in the room. From what we know, at six o'clock in the morning there was a deadlock and no agreement seemed possible. That was the moment we were the closest to Grexit. But then President Tusk said they had to stay in the room till they found a solution. After three more hours of negotiations there was an agreement to have a third programme. That is the ESM programme that is now coming to an end. The cornerstones of the agreement were then written down. So I think that was the most dramatic moment, that day. We were very, very close to the Grexit.

### **What were your feelings when we heard about the deadlock?**

I was really worried. I had always taken the view, also publicly, that if Greece had to leave the monetary union that would be devastating for the Greek economy, for the Greek population, after all the burden, all the pain Greece had gone through. It would also have been very costly for the creditors. I was always hoping that rational arguments would prevail. Grexit would have been the most expensive outcome for Greece, but also for the other euro area countries. So I was very happy that a solution was found. Since August/September 2015 the ESM programme has been implemented - with some ups and downs - but overall in a very positive way. And that's why Greece is now back with positive growth and declining unemployment. One can see a path ahead now that prosperity is returning to Greece and the standard of living for the Greek people can rise, provided reforms continue.

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