

# Klaus Regling in interview with Ethnos and News 24/7 (Greece)

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Interviews

ESM

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

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**I would like to start with enhanced surveillance. What should we expect in practice?**

For all EFSF and ESM programmes in Portugal, Ireland, Spain and Cyprus, there is monitoring after the end of the programme. The European Commission does it and the ESM also does it in the context of its Early Warning System. However, Greece is exceptional. It has received much more loans from us than any other country. Also, Greece benefits from huge amounts of debt relief. No other programme country has received anything comparable. Therefore, the monitoring will be tighter than in the other cases and this will take the form of the so-called enhanced surveillance.

Previously, this was discussed and agreed in the Eurogroup. The Commission took a decision on enhanced surveillance on 11 July. In its decision, the Commission states that Greece has made a commitment in the Eurogroup to continue and complete all key reforms adopted under the ESM programme and to ensure that the objectives of the important reforms under the financial assistance programmes are safeguarded. This statement is followed by specific commitments in the area of fiscal and structural policies, social welfare, financial stability, labour and product markets, privatisation and public administration. All of this is in fully in line with the Eurogroup statement of 22 June.

### **Does this amount to a fourth programme, Mr. Regling?**

No, this is not a new programme. This is to make sure that there is no backtracking. There is no new programme, there are no new conditions. But Greece should maintain the reforms as they are already showing positive results and Greece should build on that. In the context of enhanced surveillance, the European institutions will visit Athens every three months, four times a year, for an assessment. The ESM will be part of that. As Greece's biggest creditor by far, the ESM also wants to make sure that we will be repaid. We have granted Greece extremely long-term loans. We are a very patient creditor. But we do want to be repaid. So we will follow the developments in Greece very closely. Greece's interests, the interest of the Greek people and the government are aligned with the ESM's interest: It is in our joint interest that reforms continue, that Greece enjoys good growth and that jobs are created.

### **And what about the debt measures? When would they be implemented?**

All the debt measures were agreed in the Eurogroup in June and we will implement them in the next few months, in September and October. We need to amend what we call our financial facility agreement, which is our loan contract with Greece. We want to make sure that everything the Eurogroup decided will be implemented. It needs to be decided by the ESM governing bodies. In some ESM Member States, national parliaments have to be involved in the decision.

### **And what about Greece's access to the markets? Will it be a joint decision by Greece and the ESM?**

No, it is for the Greek debt management office to decide when they go to the market. Of course, we have very good relations. We talk to each other. We exchange views on how the market conditions are. We give advice on how to improve investor relations. But the decision is theirs alone.

### **A difficult question now: Could the pension cuts be reversed?**

That question is not difficult at all. There is a clear agreement between Greece and the institutions on pension reform. It is also agreed that all the agreements that were reached before the end of the ESM programme will be implemented.

**So there were no discussions about flexibility after the programme in the Eurogroup?**

No, this was not discussed in the Eurogroup.

**Is there no chance for pension cuts to be reversed? For example if there is fiscal space?**

This was not raised by the Greek government in the last Eurogroup meeting, so there is no reason to speculate about that.

**The decision about the lower VAT extension for the five islands has led to a delay of the disbursement of the last ESM tranche of €15 billion. Was that a message to the Greek authorities by the Germans?**

You have to ask the Germans. I am representing European interests. But I would like to make a general statement: The ESM Member States and the ESM as an institution take living up to commitments very seriously. In this case, Greece withdrew a commitment it had previously made to the Eurogroup. As the German parliament had taken its decision to approve the last ESM disbursement of € 15 billion believing that Greece would keep this commitment, it was logical that it had to reconsider its decision.

**And since Tsipras said that Commission President Juncker was aware of this reversal of reforms, do you think there is a message for the Commission, too?**

I do not know. But even if Prime Minister Tsipras and President Juncker had talked: It is not enough that one leading person is informed. The process to change something in the agreements between Greece and the institutions has to go through the institutions. And the institutions were not asked about the reversal and they did not agree to it. There was no appropriate process.

**Why did it take eight years for the programmes for Greece to end?**

Indeed, Greece has been under a programme for much longer than any other country that needed money from the EFSF and ESM. I can see at least three reasons

for that: First, the problems were much bigger than in the other countries. The fiscal deficit was much higher, the current account deficit was bigger, the loss of competitiveness was much more significant than in other countries. To sum up: Greece's starting point was much, much more difficult. Second: The Greek administration is much weaker than in other euro area countries. Even if there is a political agreement on what to do, it takes a lot of administrative efforts to implement those decisions. As part of the programme also the administration was strengthened and I see progress here. Third: In the first half of 2015 when Mr. Varoufakis was finance minister, Greece moved in the opposite direction. Reforms were stopped and reversed. And that cost billions, Greece fell back into a recession and valuable time was lost.

### **Did you have any special moments during these eight years?**

I will never forget what happened in the first semester of 2015. There was a big confrontation between Greece, its euro area partners and the institutions. Greece defaulted vis-a-vis the IMF. This made Greece the odd man out in the world economy and in the international community. And we had to find ways to correct that. That was extremely difficult. That was a dramatic moment. As a result I got a lot of extra grey hair. But I want to stress that things have become much better since. I remember many meetings with finance minister Tsakalotos and deputy finance minister Chouliarakis. We work very well together. I consider them reliable partners. I also remember very well the most recent meeting I had with Prime Minister Tsipras in June in Athens. It was a very productive, good meeting.

### **Would you recall the situations that you were happy and disappointed?**

Eight years is a long time. There were many difficult moments and a few happy ones. It certainly got really difficult at the summer of 2015. Grexit was extremely close. It was avoided at the last moment only, with the clear commitment from Prime Minister Tsipras that was accepted by the other heads of state and governments. And that was a basis for the ESM programme. The implementation of the programme improved a lot over time and that is a happy outcome. I know that it has been very painful for the Greek population. I also know that the adjustment burden is not distributed equally, that it is not always fair. But overall, the programme has yielded positive results: growth is back, unemployment is still high but significantly lower than three years ago. And I think that the future of the Greek

economy can be good if the government continues to implement reforms, as agreed.

### **So trust in Greece is back?**

There is certainly much more trust than a few years ago. However, in some of our member states trust may not yet be fully restored. The fact is that a lot of things happened in the past that led to mistrust. Greece needs to continue to work on restoring its partners' trust and I am convinced it can do it.

### **Did you ever have doubts during the ESM programme that it would not work out?**

The period of doubt was before the ESM programme was agreed. When the programme started in August 2015, I always said that it can succeed if the agreed reforms were implemented. Of course it required a full commitment from the Greek government. But there was a good chance. I said that from the very beginning. Many people did not believe me, many people around Europe were doubtful. They thought I was too optimistic. But I kept my view.

### **If you would go back in time, which mistakes would you avoid?**

In crisis management mistakes always happen. That is unavoidable. Decisions have to be taken very quickly, without knowing everything one would like to know. When the crisis started in 2010, the euro area was totally unprepared for a crisis of this magnitude. We had neither the instruments nor institutions we have now. For example, the debt restructuring of 2012 that helped Greece a lot should have come earlier. But the fact is that we did not have the instruments to do this faster. Today, we are much better equipped in case we had to confront another crisis one day.

### **The IMF insisted that the Greek debt should be restructured even before the first bailout programme. If this had happened, would Greece have completed the programmes earlier?**

It is pointless to speculate about the effects of up-front debt restructuring in Greece before the first programme. The fact is that in 2010 and 2011 we did not have the instruments to do debt restructuring in an orderly way. Had we restructured the Greek debt at that time, there would have been a danger of provoking more spill-

over effects that could have endangered the entire euro area. But today monetary union is much more robust and the idea to look at debt sustainability at the beginning of a programme is pertinent. That is the reason why I am proposing a Sovereign Debt Restructuring Framework that defines predictable and transparent guidelines for cases when debt restructuring might be good for a country. Let me also stress that I envisage country-by-country decisions. I am not in favour of any automatic or rigid rules in this context.

**Do you agree with the opinion of the former Eurogroup President Dijsselbloem that the first Memorandum's target was to save the banks?**

I do not believe that this fully reflects Mr Dijsselbloem's thinking. The purpose of the EFSF programme was to help Greece in a very serious situation. The country had lost market access as a result of wrong economic policy choices of successive governments. The country was in urgent need of budget consolidation, structural reform and repairing its public administration in order to rebuild a sustainable economy, an effective administration and to regain investor trust. In the process, also banks required recapitalization as many depositors had withdrawn money for fear of a Greek euro exit. This was necessary because any economy requires a functioning and well-funded banking system. But a lot of the EFSF money was also needed to finance a fiscal deficit which was very large in the beginning and could no longer be financed in the financial markets. The EFSF programme bought time for Greece to stretch a painful adjustment process over several years. Without the EFSF programme, there would have been a disorderly exit of Greece from monetary union and this adjustment would have had to happen overnight literally, with an unimaginable brutality and unacceptable social cost.

**What about IMF's role in the Greek programme?**

When the crisis started, it was very important to have the IMF here in Europe. Remember, there was not only Greece, we had to deal with five countries in a crisis. We had just set up the rescue funds EFSF and ESM. At that time, we could not guarantee that we would be able to mobilise all the money that we needed for the rescue loans. So we really needed the IMF's money. We were also very happy to have the IMF because it had decades of experience in crisis resolution that we did not have in Europe. In the last two years, there were some disagreements with the IMF regarding Greece, for example on the economic forecast. We saw the fiscal over-

performance much earlier than the IMF. But one has to be very careful. Forecasts can be wrong. I am not suggesting that we are always right and the IMF is always wrong. We also had very different views on the debt relief that was needed for Greece. But despite the disagreements with the IMF, if I look back at everything that happened in the last eight years in Greece and the other programme countries, I want to stress the good and productive relationship we had with the IMF.

**If the Greek crisis took place now, would you invite the IMF again or would the ESM or a European Monetary Fund be able to handle the crisis?**

Besides Greece, we have cooperated with the IMF closely in Portugal, Ireland and Cyprus. In general, the cooperation has been good. The reason is that we have the same objective: We want countries that lose market access to tackle the root-causes that led to the loss in market access. We want the country to regain market access. Over the years, the Commission and the ESM have built up an expertise in crisis resolution that we did not have in the beginning. But that does not mean we will never ask the IMF again for help. Every euro member state is also an IMF member. As IMF members they have the right to ask for IMF financial assistance. We cannot say to what extent euro area countries will request IMF assistance in the future. This will depend on the circumstances.

**Which practices should Greece avoid in order to attract more investments?**

That is a crucial question because Greece needs more investment. Apart from foreign investors, it would be good if the Greeks themselves invest more money in Greece and not outside Greece. When that happens, we can have a pleasant surprise on growth. It could actually be higher than our forecast. But that requires a number of things and this is the same in all countries. There has to be stability: financial stability, political stability and there has to be a healthy fiscal environment. I know that the government is thinking about lowering tax rates as soon as there is fiscal space. I think that would be good. Tax rates in Greece are high at the moment. Another key issue is to continue to strengthen the public administration and the legal system. That is very important for foreign investors. And the reforms of the last few years should continue.

**One day before Greece completes the programme, what would you say to Prime Minister Tsipras, and what would you advise him?**

I have met Prime Minister Tsipras in the course of the ESM programme and I know that he does not need my advice, he knows what to do. After 20 August, Greece will regain financial sovereignty. The ESM and the other institutions will still be involved in Greece in the context of the post-programme arrangements. But as is the case for all the other 18 euro area countries, the financial markets will now watch very closely all the decisions the Greek government is taking. In the beginning, markets might even look more closely than they do with other countries for the simple reason that Greece has been largely absent from the markets for eight years.

**Opposition leader, Kiriakos Mitsotakis, has promised to the Greek people that if elected, he would reduce ENFIA (property tax) by 30% in two years, would proceed in tax reduction for companies from 29% to 20% in two years and would bring VAT back to 13%. Would all of this be possible? Under which circumstances would this programme be implemented?**

I will not get involved in domestic debates. But I would like to stress that I have also been in contact with Kiriakos Mitsotakis. He has always stressed that he supports the objectives of the ESM programme and that he is very much reform-minded. And I know that he is fully aware of the post-programme-arrangements for Greece.

**Can Greece be a success story?**

Absolutely. Some time ago nobody believed that Portugal, Spain, Ireland and Cyprus would become success stories. Referring to these four countries, I always talk about our four success stories. I will now be able to include Greece in this group, provided that Greece sticks to the agreed reform path.

**Tomorrow it is the end of the programme. Is it a day to celebrate?**

It is great news! The Greek people should celebrate. From my visits to Athens, I have come to really appreciate Greek wines. But tomorrow, I will celebrate it with a good glass of ouzo.



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