Klaus Regling in interview with ERT (Greece)

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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: How concerned are you about the downward revision to growth of the Eurozone economy? I know almost everyone rejects a recession but clouds are getting bigger and bigger over Europe and not only Europe.

That is already a good point. It is not only Europe, but also in Europe it's clear that growth rates are coming down and to a large extent that's not new. That's not unexpected at all. Already in 2018 growth was less for the euro area, for example, than 2017. We are in a normalisation phase because growth rates, particularly in 2017, but also in 2018, were substantially above the potential growth rate and we know this cannot continue for very long. What the economists call the output gap has been closed and that means growth needs to come down to the potential growth rate, which is probably something around 1.5% and 1.25% for the euro area. So, there is a normalisation. Now, unfortunately, on top of that, there are risks and everybody knows about the risks. There's Brexit, we don't know exactly how it will play out, what the impact will be, depending on whether it's a no-deal Brexit or a well-organized Brexit. There's the trade tension between the U.S. and China, which could spill over to Europe. There is a slowdown growth also in China, so there are these external factors and therefore, on top of the normalisation. It may go down a little bit further, but like most others I do not believe that it will go much further. And also when I talk to market participants, which is part of my job at the ESM – I did that a lot last week - this view that it’s a normalisation, with slower growth rates but not moving into a recession, is widely shared.

Some analysts estimate that we need another crisis in order to accelerate decisions such as Banking Union, deposit guarantee. Do you agree?

We all work very hard to avoid another crisis. In the abstract, it is true that decisions can happen faster in a crisis. We saw that 6, 7 or 8 years ago, when the ESM was created. But during normal times, and we are all very happy to be out of the crisis, it takes a bit longer because there are 19 sovereign countries - the members of the euro area. They have shared some sovereignty by pooling decisions on monetary policy, exchange rates policies and by being subject to commonly agreed rules on the fiscal side. But they are still independent countries. When there is a new problem that requires new decisions, that’s not easy because in the 19 countries there has to be a debate in the parliament, in the media, the broad public, and then this has to be brought together. It’s unavoidable that this takes time.

In a crisis, when everybody is under pressure, and knows that one has to do it quickly for the crisis not to become worse, the process can be faster, which is good. But one shouldn’t be overly optimistic that during normal times it can be much faster. It takes time, but I think we have demonstrated that we are still able to take decisions, like the [Euro] Summit in December that decided on additional steps to deepen Monetary Union, to make our monetary union more robust.

Let’s come to Greece. Are you satisfied by the country’s post-programme performance?

I think Greece continues to make progress. There was an agreement in August and it was also linked to the debt decisions of the Eurogroup in June last year, that even after the end of the programme, Greece would continue certain reforms that are already agreed and also stick to previous reforms. And this includes, for example, the primary surplus of 3.5% of GDP, which is agreed until 2022, and I see no indication that the government would walk away from that. The government does not question that target, which was a core element of the programme and also of the post-programme period. There are many other elements and the second enhanced surveillance report that was discussed in the Eurogroup earlier this week shows that there is progress in many areas but not in all. That’s why the Eurogroup decided to wait a little bit, so that more progress can be made, particularly related to the protection of primary residences, which is a complex, legal framework that needs to be agreed on and the Institutions want to see the details of this legal agreement and then it also goes to Parliament. This was one of the main issues.

But in general, and particularly, at the ESM, because we are the largest creditor of Greece, we feel that we have a special relationship with Greece, we see ourselves as a long-term partner, because our loans to Greece have an average maturity of 40 years. It's a lot of money, €200 billion, that is 55% of all Greek public debt. Therefore, we have a responsibility as a creditor, because we want to be repaid, over time, not immediately, we are very patient. But it is therefore in our interest that Greece does everything possible to enhance the growth potential, the growth prospects, and this is totally aligned with the interests of the Greek people I think, because they also want to see more growth because that leads to higher standards of living and more employment. So I really think that there is a long-term partnership that is aligned and that is why we always analyse whether everything has been done to enhance growth.

Do you think there is enough time until 5 April to solve all these things?

It should be enough, yes. Of course, everybody has to work now on these remaining details but I think it should be possible.

Some say it is very difficult to solve the problems of the banking sector or to implement reforms ahead of elections, and they are coming up, national and European. What are you afraid of most?

I think banking problems are the biggest issue in Greece today, although, also here it remains true that progress has been made. For instance, the capital ratios of Greek banks are high, above the European average. But the non-performing loans are at 46% of total assets, the highest in Europe. Even there is progress. They have come down by about €20 billion in the last two years, so it's good progress, but it shows that the level is still very high. And that's again not good for growth in Greece because with such high NPLs, it's very difficult for banks to provide loans for the economy and without additional credit, new loans, it would be more difficult for the economy to grow. So, again, this is an issue that needs to be tackled, in the interest of the Greek people, and the ESM, and all the other institutions. There is progress but it needs to continue and therefore this is something to follow very closely. And I think that particular issue has not so much to do with elections. We need to find solutions and as a minimum, to continue the progress that we have seen in the last two years.

Does Greece remain a special case?

Yes, in a certain sense, yes. Because Greece received more support than any other country in the euro area. In the last nine years, the EFSF and ESM provided loans to five countries, but the amounts are much smaller for the other four countries - Portugal, Spain, Ireland and Cyprus. So Greece, by far, the biggest amount because their problems were the biggest and it took also 8 years to go through these programmes. And Greece, unlike the other four countries, received a substantial amount of debt relief. There was no private sector involvement with haircuts in other countries. There was some maturity extension but not up to 40 years like in the case of Greece. No interest deferral like in the case of Greece. No profits from previous central bank interventions. So Greece got a lot more support through loans and debt relief. That’s not comparable with what happened in other countries and therefore it is understandable that not only the institutions but the taxpayer in all the other countries has an interest in what is happening in Greece now and in the next few years.

When do you think Greece can return to investment grade?

Again, there has been progress. Until recently, there have been upgrades but Greece is still two or three notches away from investment grade. If the reforms continue, if the government sticks to the commitments given to the Eurogroup, to the European partners last year, I’m sure this series of upgrades will continue. I cannot say when the threshold to the investment grade will be crossed, but this is only a question of time. If the reforms continue, there will be the upgrade, and I think the bond issue last week shows that the market already has positive views. They will be more encouraged with future upgrades but that completely depends on the reform continuation.

Author

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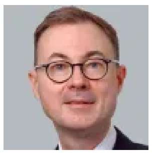

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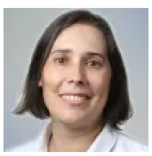

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