

Klaus Regling in interview with Kathimerini (Greece)

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Interviews

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Interview with Klaus Regling, ESM Managing Director Published by *Kathimerini* (Greece)

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Kathimerini: You said after the last Eurogroup that the target of a primary surplus 3.5% of GDP is the cornerstone of the agreement between the government and its creditors. During the Economist conference last week, you repeated the need to maintain the target. You also said that growth should be the top priority for Greece. Do you see any room to change the primary surplus target in the future in order to boost growth and if so, under what circumstances?

Klaus Regling: We are very happy that the government has the clear objective of promoting growth. That is also in the interest of the ESM. The ESM is the largest creditor of Greece. We have disbursed more than €200 billion at very low interest rates with very long maturities. That in itself is good for growth in Greece, because the Greek budget saves an estimated €13 billion every year. The Eurogroup agreed on this package, including the fiscal targets for the next few years, together with additional debt relief. The starting point is very clear. The question you raised is not relevant at the moment. The prime minister and the finance minister both confirmed in our talks the last few days that they will stick to these targets.

Yes, but it is in the government's programme. The government may bring

this question up in the future. Do you see a possibility to reconsider it, in the light, for example of the considerable fall of borrowing costs?

At the moment, I see it as very positive that the government has confirmed the agreement. That is not only true for the ESM. Markets also look at it in a positive way. They have confidence that the economic policies of the government are growth-oriented and that will lead to debt sustainability. This could lead to even lower market rates.

Do the lower rates change the debt sustainability analysis?

Sure. Every year, we do a debt sustainability analysis and we see how things develop. We do it with a 40-year time horizon. There is a lot of uncertainty, but one has to do that and then we will see what the result will be. At the moment, however, it is not a relevant question. We are a bit concerned that growth is not as high as we were hoping. The last decisions of the previous government, the last two to three months before the elections, were not growth friendly. I refer to certain measures on the fiscal side, on the tax side and the fact that the investment budget was underspent. That goes in the opposite direction of what you indicated and what the new government is trying to achieve. So we have to wait and see.

Given that the fiscal target will be maintained and that the European Commission raised some concerns about reaching the target this year, do you think that it will be reached? Do you think additional measures will be needed for 2019 and/or 2020?

The issues raised in the enhanced surveillance report were fully supported by the ESM. This was a joint position of the European institutions. Indeed we have expressed our concerns that this year's target might not be reached. So we will discuss this with the new government. The mission is coming back to Greece in September to prepare the next enhanced surveillance report. We will look at this very carefully. I take note that the finance minister believes that the fiscal target this year will be reached, so we will analyse that very carefully.

What is your opinion about one of the measures of the previous government, the abolishment of the law to lower the tax credit? You mentioned at the Economist conference that you want to see the lower

taxes coupled with a broader tax base. Did you mean by lowering the tax credit?

Yes, exactly, that is the general recommendation that the European institutions have given for some time: They recommend to broaden the tax base in order to allow a reduction in the tax rates. I would consider that to be growth friendly: We have a situation where a relatively small share of the working population is actually paying taxes that are high compared to most other European or OECD countries. That's why this measure was agreed some time ago and we were disappointed that it was reversed. All European institutions made it very clear that we were disappointed.

So are you negotiating to lower it again?

Greece is not in a programme. Therefore we have no intention of imposing any kind of conditionality. That is history. But we have a view which measures are growth-friendly and which are not. Here we saw a reversal of an understanding and we did not find this helpful. What counts for us is that growth is stimulated. We are confident that the new government has the right approach overall and Greece reaches debt sustainability. Therefore we will give our honest advice on what is good for growth and what is not. Those talks will continue very soon. But again: What I have seen in the last few days is that the new government has the clear intention of taking initiatives that will be good for growth.

What do you think about the government's plan to lower taxes? Finance Minister Staikouras must have talked to you about the new tax bill that the government is preparing. What do you think about it?

He talked to us about it. We will receive the details the next few days. We need to see it in more detail. I think it is fair to say that tax rates in Greece are high. So lowering some tax rates, particularly on income, corporate and personal income, and to bring them in line with other European countries, is probably good. It's not true for all taxes. For example, consumption taxes are a different story.

So you think VAT is not very high?

It is within the band that is allowed by EU directives and lowering certain taxes is more growth-friendly than lowering others. But of course, we are also interested in

how the numbers add up in the end. Because if the taxes are lowered and there is a gap in the budget, it has to be covered somehow and we have not seen the details on that. Of course, this is not a criticism of the government. The government is in place now for a bit more than a week only. I am sure we will talk about the entire budget when the mission comes back in September.

So you don't know if there is fiscal space for lowering taxes?

We do not know that yet.

If there is not enough fiscal space, do you think the European institutions will raise objections to the tax bill?

We have not seen the details. So we are not in a position at the moment to judge that. But this will be a very important topic when the mission comes back. Greece is not in a programme. I want to re-emphasise that. Therefore it is not our job to approve certain measures. But we will give our view on whether we agree if measures are growth-friendly and whether debt sustainability will be reached. That includes the fiscal targets.

Are you concerned about reform delays? If so, in which areas in particular?

Overall, of course, Greece has made significant progress over the last few years, including in the context of the third programme. That is very welcome. Growth is now back, unemployment is 10% lower than at its peak. So that is good, although it is still high. But we also know that in certain areas, the previous government was reluctant to do the reforms that the institutions considered to be useful for growth. You know about the 15 points that were mentioned in the last surveillance report, where we saw little or no progress. I find it encouraging that the new government wants to address these issues in order to promote growth. There are several examples of where more should be done in the interest of the Greek people. Legal reforms are needed because the time needed to complete a court case is much longer in Greece than in any other European country. The public administration should be reformed. Privatisations have been hesitant at times and certain public sector enterprises are not well managed. PPC is one example where it seems there was political interference in the past. That led to financial problems that we see now. So I think there is a full agenda and I am encouraged by my talks here: The new

government clearly says that it is prepared to tackle these problems.

What is the overall message that you gave to the new administration?

The ESM has the same interest as the Greek economy. There is a need to implement more reforms that are growth-friendly. And we want to see debt sustainability to be reached. These are our guiding principles and I do not see any inconsistency with the policies stated by the new government. But of course a lot will now depend on the details. There is a lot of work to be done. The government wants to act quickly. I think this is good because then results can be seen early. The topics that are high in the agenda are very clear and that is positive.

How do you comment on the 7-year bond sale of last week?

The bond sale is another positive sign. Markets have confidence in the economic policies of the new government. Of course, they will follow developments very closely and monitor the decisions taken. But at the moment they are positive. It was very easy to sell €2.5 billion in bonds. There were bids for €13 billion, so it was more than 5 times oversubscribed. The interest rate is below 2%. That was a big success. It shows again: with the right policies, markets can react positively. That can lead to a virtuous circle with lower interest rates. That could indeed create some fiscal space. Also, foreigners could become more interested in foreign direct investment in Greece. I think that the government had a good start here.

Can the cash buffer be used to boost the real economy? One example could be to use it for the banks or to reduce arrears, like Mr. Costello of the European Commission mentioned during Conference?

First, I think it is very good to have a cash buffer. It also gives reassurance to markets. They do not need to worry about the repayment of bonds that have been issued. The extent to which it can be used to address the problem of banks with their non-performing loans depends very much on Commission's assessment, because state aid rules need to be respected. I will not interfere with that. Arrears are still there. That is worrying because they should have been eliminated last August at the end of the programme. It is not good for growth that they have not been eliminated and new arrears are accumulating. I think there is money available, certainly it is budgeted to pay those arrears. I hope the government is able to do

that quickly.

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