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Europe's financial stability chief

## Continuing reforms will benefit Greece

TOKYO (Nikkei) -- The head of the organization tasked with safeguarding financial stability in the eurozone says the new anti-austerity government in Greece should strive toward reform and fiscal health.

Klaus Regling, managing director of the European Stability Mechanism, told The Nikkei in Tokyo that it is important for Greece's government to know that more than 70% of Greeks want to see their country remain in the eurozone.

The German economist dismissed the possibility of another euro crisis, saying Europe is now fully prepared to cope with all risks.

Regling also disclosed that the European Stability Mechanism may issue bonds denominated in currencies other than the euro to attract investment from Japan and other Asian countries.

### **Q: How do you assess the outcome of Greece's recent elections?**

**A:** In the European Union all the member states are democracies. Changes of government are normal. The rest of Europe is prepared to work with the new Greek government. For the European Financial Stability Facility and ESM this is particularly important because we are the largest creditor of Greece. We have disbursed over 140 billion euros during the last three years, we own 44 percent of Greek debt, we are by far Greece's largest creditor. Greece benefitted greatly from our loans. We provided financing with very long maturities -- more than 32 years -- and at very low interest rates.

Reforms implemented by Greece so far, including fiscal consolidation, have been very positive for the future of the Greek economy. The benefits have become visible recently as Greece is returning to growth. I hope that the reform process will continue under the new government, because it's in the interest of Greece. The new Greek government may want to make some adjustments. But it would really be a missed chance if they did not pursue the reforms and let the progress accomplished so far go to waste.

### **Q: What are the prospects for negotiations between Greece's new government and "the troika" of debt collectors (the International Monetary Fund, European Central Bank and European Commission)?**

**A:** Our current assistance program for Greece will expire at the end of February, unless the Greek government asks for a further extension. It is important to know that more than 70% of the population of Greece want to stay in the euro area. I hope it will be possible to find an agreement with the new government. If there is no agreement, there will be no more money available. It is still too early to judge what will happen.

### **Q: Some people talk of fears of another euro crisis or of the risk of "Japanization." What do you think?**

**A:** On the markets there was no spillover to other European countries following the Greek election. I don't see any reason for this to lead to a new euro crisis. We have now a totally different situation in the euro area compared to five years ago. We have a crisis resolution mechanism in place. The EFSF and ESM have enough firepower to help the member states. We have the banking union. We have much better coordination mechanisms for economic and fiscal policy inside the euro area. And countries that had problems three to five years ago have all made significant progress, like Ireland, Portugal, Spain or Cyprus. Even Greece has made significant progress. As a result we are now far better prepared for whatever crisis might happen in the future.

The euro area is quite different from Japan. Wages in Japan have been falling for a number of years. We don't have that in Europe. A number of countries in the euro area have been very forceful in implementing structural reforms. Also the Banking Union was started in November last year. We have made a lot of progress in making the banking sector in Europe healthy again.

There are some similarities between Europe and Japan. For example, Europe has a demographic problem like Japan, and that can contribute to low inflation. But there are also many differences.

The headline inflation rate is negative, but we know that -- like in Japan and many other countries -- falling energy prices are contributing to low headline inflation. Core inflation in the euro area is about 0.8%. I share the ECB's view that this is not deflation.

### **Q: How do you assess about the ECB's quantitative easing measures?**

**A:** The ECB has adopted many measures throughout the last five years. QE is the latest very important step in the long series of measures that have been very useful to support the economy in the euro area. We don't believe that we are in deflation right now. However, we have



Klaus Regling, managing director of the European Stability Mechanism, speaks during an interview in Tokyo.

a period of low inflation. And the ECB wants to aim at its target inflation rate of just below 2%. Once QE is implemented in March, it will help the euro area economy to return to normality.

**Q: Many Germans are not in favor of QE. Mr. Draghi has tried to convince the German people. Do you think Germans have been convinced that QE is the right policy?**

**A:** The majority of German people are skeptical. They are not convinced that QE can deliver the benefits that some people expect from it. The ECB buys sovereign bonds in the secondary markets. This is a very normal central bank operation. However, the benefits of QE in Europe may be smaller than the benefits in the United States, because the financial market structure is very different. But there will still be benefits. So I support this action by the ECB.

**Q: How do you assess Abenomics?**

**A:** I know that the Bank of Japan has been very courageous for the last two years. The BOJ implemented QE and this has shown some positive results. It is not easy in Japan to increase the inflation rate and the inflation expectation when import prices and energy prices fall so strongly. But in the end, wages will accelerate again.

Many macroeconomists think that more should be done on the structural side to help the Japanese economy to recover and grow faster. Because there are some underlying problems -- part of them related to demographics and to the population decrease which has, of course, a powerful impact on the demand and supply side of the economy.

**Q: How can you attract investors for ESM bonds in Asia?**

**A:** Japan has always been a very active and supportive investor in our bonds and we really value this greatly. During the last four years Asian investors have bought about one-fourth of our bonds. During this period we have disbursed more than 230 billion euros to five countries. If we had not done that, some of these countries would probably have been forced to leave the euro area. It was a big success that this did not happen. In order to finance our loans, the EFSF and ESM are very regularly on the market and will continue to be in the market for a long time. We expect to issue around 30 billion euros in bonds every year.

So far, we have only issued bonds in euros. But we are in the process of widening that and we are likely to issue in other currencies in the future. International investors will then get a wider menu of possibilities to buy EFSF or ESM bonds. But this needs to be well prepared technically and will therefore take some time. It is still too early for me to say in which currency our first non-euro currency bond will be issued.

*Interviewed by Nikkei staff writer Manabu Morimoto*