Interview with Klaus Regling, Managing Director, ESM

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NZZ: Mr Regling, things in Greece have become quieter. But so far the first review of the reform programme has not been concluded, which indicates there are difficulties. What is your assessment of the situation?

Klaus Regling: Yes, the situation in Greece is indeed calmer compared to one year ago, when the government tried something totally new. Eventually that led to a big step backward that did a lot of damage to the country's growth.

Why is the review taking longer than expected?

Because these are very complex and difficult issues, like pension reform. It is always a difficult matter when entitlements that have already been promised have to be cut. That means that expectations on which entire life plans have been built are not met. That is not easy. But the government agrees that the current pension system will be bankrupt in a couple of years at the latest. So they completely understand it is necessary to reform the system.

So you share the expectation of EU Economics Commissioner Moscovici that the review can be concluded by 1 May?

That is possible, because the issues have been identified and the main goals have been established. So there is no longer any debate about this. But you have to keep in mind that the issue with the refugees has made the situation more difficult. This is a problem that requires a lot of time from the Greek government.

Does this mean that the Greece will be given more financial room to manoeuvre because of the problems with the refugees?

No, the reform programme and the issue of the refugees are kept strictly separate. Greece will receive support from Europe to deal with the influx of refugees. But this will be done with public money, not with money from the ESM. And that is the correct approach, because at the ESM we grant loans, while for the refugees it is appropriate to use public money, so money that won't have to be paid back.

The institutions tasked with reviewing the reforms are currently in Athens. Have you received any feedback already?

Colleagues from the ESM are on the ground, together with the other institutions. They are keeping me updated, the review is very important to us. The two rescue facilities, the EFSF and ESM together, are by far Greece's biggest creditor. Currently, we hold 45% of Greek public debt. Once the third rescue programme has been fully disbursed, that figure will rise to around 60%.

What did your colleagues report back? Is there a breakthrough?

There is progress, but it is too early to say when exactly the review can be concluded.

Now, Greece was also promised negotiations about additional debt relief. What exactly is this about?

Greece's debt servicing cost is already very small, because the interest rates are so low and the maturities so long. This approach to the loans has advantages for both parties. For Greece, it means relief, and for the creditors it means there are no new expenditures.

What would be possible in addition to that?

Nominal haircuts are out of the question. But we can talk about a further extension to the payment dates or an additional interest rate deferral.

Isn't that just transferring the problem to future generations?

No, that is the wrong way to look at it. First, our interest rate is generally very low. So the interest rate burden is not pushed back in time, but will remain low in the future. As a result, the Greek state saves a lot of money every year, also in the future. Second, the loans are linked to reforms and we know that reforms today lead to more growth in the future. This also benefits future generations.

It is particularly the IMF that insists on debt sustainability. This spring the IMF has to decide whether it wants to remain part of the creditors in Greece. Would you prefer for the IMF to remain on board?

Definitely, yes. And it is also what I expect. It would not be a problem for us to come up with the money ourselves, but the IMF's expertise is very important to us.

Actually, what happened to the €10 billion from the previous programme that had been reserved for the Greek banks but that were never disbursed?

These funds were cancelled once the programme was over; they are no longer available. But we also don't need the money, because the third programme has sufficient funds. There will be no shortage of money, also not for the banks. Of the up to €86 billion from the third programme, around €25 billion were reserved for bank recapitalisation. Only a bit more than €5 billion have been used so far. The total amount of the €86 billion will not be needed fully for the same reason.

How much do you think you will need?

The official number is €86 billion. But at the ESM we expect that significantly less will be needed. We are permanently estimating how much money we need for our internal liquidity planning, because we have to go to market to raise this money. At the moment we're assuming that €60 billion will be needed until 2018. We're continually adjusting this estimate. For example, if the world economy were to slide into a severe recession, we would have to revise the estimate upwards.

You say there is no shortage of money. But perhaps there will soon be a shortage of liquidity in Greece. The next tranche of rescue funds can only be disbursed when the review is concluded, and we are still waiting for that.

Yes, the situation is getting a bit tight. But sometimes a little bit of pressure can be helpful and accelerate things. Because we always stick to our principle that we only disburse funds if the agreed reforms are really being implemented.

This summer, Greece has to come up with big amounts of money because some of its bonds will come due. Couldn't the government simply speculate that the creditors will go soft and turn a blind eye just before this date because they are afraid of a liquidity shortage and a revival of the crisis?

According to my experience, the creditors will insist on their conditions. And that is also in the interest of the Greek economy.

Three years ago Cyprus also needed a rescue programme. At the end of this month the country will leave the programme and it is winning a lot of plaudits. Is the situation in Cyprus really that rosy?

It is in any case much better than three years ago. In 2013 they had a big crisis there. The reform programme that was established at that time has been doing much better than expected, growth returned much earlier and the country is able to finance itself again on the market. Cyprus is a success story, there is no doubt about that. The same is true for Portugal, Ireland, and Spain. Expectations about the effects of the programmes were also exceeded in these countries. That does not mean that the adjustments aren't painful for the population. For example, unemployment in Cyprus is higher today and incomes are lower than before the crisis.

Recently Ireland, Portugal, and Spain held elections, which have led to uncertainty about future reforms. Is there a risk that these countries will knock on your door again soon?

I don't think so. Democracy sometimes leads to uncertainty. But in all these countries there is a lot of support for the euro, despite the painful adjustment that the population had to endure after the crisis.

So you're not afraid that any new countries will come knocking on your door? How many more countries could you rescue?

No, I don't expect that. But we could nevertheless help other countries. The EFSF and ESM have a joint lending capacity of €700 billion. Out of that, we have disbursed €255 billion in the past five years. If we take into account the €40 billion that we still need for the programme in Greece, we have spent about €300 billion of our potential. So €400 billion are still unused, and that would be sufficient even for big countries.

So you would be prepared financially. But is it democratically still feasible in Europe that governments ask their parliaments again for money for the crisis countries?

Politically that was never easy. But the past has shown that a consensus is found if something has to be done.

What do investors ask you when you travel around the world to try to get them to engage with the ESM?

That has changed a lot over time. In the beginning we had to explain a lot about how the EFSF and later the ESM worked. Investors wanted to know exactly how the guarantees work and who is liable when things go wrong. We had already discussed these things in great detail with the rating agencies. We got a good rating as a result, which now helps us to raise money at such favourable conditions. Today these explanations are no longer necessary. Investors now are more interested in knowing how the programme countries are doing and how monetary union will be strengthened in general.

So confidence in Europe is back?

Certainly. In 2012, on Wall Street most people were convinced that the euro would disappear. That has completely changed.

Is the ESM one step to a joint liability in Europe?

In a narrow, clearly defined sense the ESM implies a joint liability and therefore a small step towards a fiscal union. But I believe that the population of Europe does not want a United States of Europe, so no complete fiscal union.

Won't joint liability lead to a situation where governments no longer aim for healthy finances because there is an institution that comes to their rescue in the worst case?

I don't think so. It is very unattractive for governments to accept money from the ESM. They lose parts of their sovereignty for several years under an ESM programme. No government likes doing that.

As the head of the ESM you are faced with a dilemma: on the one hand you are interested in a solid euro. On the other hand you lose your clients once the Eurozone is totally healthy. What's more important?

This is no dilemma for me. In the past 25 years, I have worked intensively for the euro and my desire to see a well-functioning currency union clearly dominates. Also, I have no fear that we will run out of work. We have to monitor and manage the €255 billion in loans that we have disbursed and we do this with great attention to detail.

Where do you see new tasks for the ESM? In the refugee crisis?

I see no role for us in the refugee crisis. For this you need public funds. Leading politicians and academics have proposed that the ESM should evolve towards a European Monetary Fund or a treasury for the currency union. But these ideas can only be implemented in the long run, if at all. In any case: for the time being we are very busy.