

Transcript of interview with Klaus Regling, Managing Director, ESM

Bloomberg TV, "Pulse", 27 April 2016

Interviewer: Hans Nichols

Bloomberg TV: Behind me you see the Brandenburg Gate, four horses atop that – it's known as the Quadriga. The ESM is the fourth horse of that. When we talk about the old troika, it's now the quadriga, it's an important player in the European financial structure. When you look at where the ESM is now, what has it accomplished and what more does it need to do?

Klaus Regling: I think it's fair to say we've come a long way. We have provided loans to five countries that had lost market access. And if the EFSF/ESM had not been created, some of these countries probably would have been forced to leave the euro area. That's a big achievement.

You're keeping everyone together, low interest rates, and yet sometimes it seems though the different institutions don't have the same economic forecast – the IMF is on one page, the European Commission is on another. Help us adjudicate – who is right on their forecast?

That's impossible to say ex ante; we will know in two years. We all know that forecasts have a high degree of uncertainty, even forecasts for this year, what happens at the end of the year. It becomes more uncertain as we go over time. Here we need to come to an agreement on what happens by 2018 – a two-year period – so it's not surprising that there are different forecasts, and I will not say that one is right and the other is wrong. But because we have that situation, we have to live with it. The Greeks have to live with it, and that's why the idea came up to suggest contingency measures, which would kick in only if the more pessimistic forecasts of the IMF were to materialise. If the more optimistic forecasts from the European Commission, which I support, were the correct ones, then these contingency measures are not needed. So that I think is a way to deal with it; it's innovative but it's a possibility, and nobody should claim that he or she really knows which forecast is right.

Should we read too much into the fact that there are these different forecasts from different institutions? Will the IMF ultimately stay part of the Greek bailout?

So on forecasts I think we have to live with that fact, that there are different forecasts over a two-year period. I'm confident that the IMF will join the programme. We started it last September; we have already disbursed one quarter of the programme, which is up to €86 billion, so it's up and running. IMF staff have been at all the meetings in Athens and Brussels, so they are fully aware of what's going on. And I hope that they can join. We can find ways to bridge the fact that they have a different forecast, a slightly different assessment of the situation.

What more does Greece need to do?

They need to take measures to move to the targets that were agreed last summer, when the third Greek programme was adopted, first at the summit of the heads of state and government. Then the details were spelled out by the euro area Finance Ministers together with the Greeks. There the key decisions were taken, like the primary budget surplus for 2018 at 3.5% of GDP, how much to privatise, what kind of structural reforms to do, pension system reform. And we need to get there,

because in that sense the ESM is exactly like the IMF – we do not make any disbursements without conditionality in place. And that's where we see some things lacking on the Greek side; they need to be fixed and then we will make our disbursement.

Why the delay?

Because some of these things are not easy. Pension reforms are difficult even under the best of circumstances. Many countries have to do it, but pension reform is technically complex and politically always very sensitive.

Well, is the political will there? I guess that's the question.

It's politically difficult to do a pension reform anywhere, even in countries like Germany or the UK. The political will is there a lot more than a year ago, and that's why Greece now has more problems than the other countries that went through ESM programmes. They fell behind last year, because they moved backwards and that's why they are in trouble. They have to catch up. But the political will compared to a year ago is much, much better and Prime Minister Alexis Tsipras agreed to the programme targets.

How quickly does the Eurogroup need to meet in Brussels?

We are ready. Mr Dijsselbloem, the chairman of the Eurogroup, said last week in Amsterdam that we might meet tomorrow. Yesterday, when we assessed the progress, the conclusion was that there's not enough progress to justify a meeting. It can happen any moment that progress is better.

So if we see a meeting called, we should read that there is progress being made and that we're closer to a next disbursement from the ESM?

That's the correct interpretation.

When you look at what the ESM is asking in terms of reforms, you mentioned pensions, what are the other difficult areas?

Privatisation, income tax reform – because at the moment, less than half of the Greek people pay any taxes, labour market reform. So there is a full range; nothing is completely new because Greece has gone through reforms in the last five years, and they deserve credit for that. But they have to do more to bring growth up again.

Wolfgang Schaeuble's position seems to be that you don't need to have an overall cut in the size of the debt, that it's teased out so far that interest rates are so low, that when you look at the net present value, Greece's debt burden isn't that high. Are you sympathetic to that view? And square that with what the IMF seems to be saying.

On that point there's not a big disagreement with the IMF. It's correct to say that at the moment, Greece has no debt service payment problem, because in 2012 we already did many things: private creditors had to accept haircuts; official creditors in parallel gave debt relief – with maturity extension, interest deferral, reducing the margin on interest. So the actual debt service payments that Greece has to do after these operations are relatively small, for a number of years, then it goes up again. And one can look at that, and provide more help, but here the Eurogroup and the summit last year were very clear – they said we are prepared to provide more debt relief – not haircuts – if needed, and if Greece implements reforms. And that's the sequence; we are waiting now to conclude the current review. Only if that is done, the Eurogroup will look at whether additional debt relief is necessary. Also the IMF has said very clearly that nominal haircuts are not needed.



Five countries you mentioned in the very beginning; let's pull away from Greece to talk about what you've done elsewhere. Do you see any other potential new programmes that you'll need to implement?

No. These other four countries that received a lot of money from us are successful in the markets; they have no problems refinancing themselves. They are also successful in the sense that Ireland and Spain had the highest growth rates in Europe last year – Ireland more than 7%, Spain more than 3%. And apart from those, all the other countries are in better shape in Europe, so I don't see any other candidate.