

Interview with Klaus Regling, Managing Director, ESM

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***Corriere della Sera*: Greece is back in the foreground. After eight months, negotiations haven't come to an end because of a spat between the EU and IMF. What are the risks of this delay?**

Klaus Regling: Your question doesn't describe properly the situation. There is an eight-month delay in the review because there are relevant implementation problems in Greece. The IMF and the EU have different forecasts but that doesn't account for this long delay. We are talking about projections for the next two years. It's quite normal that forecasts differ between institutions. To prevent potential slippages in budgetary figures, Greece was asked to prepare and legislate measures which would only be implemented if the more pessimistic scenario - envisaged by IMF - materialises. Greece believes that the more favourable forecasts are justified and that those measures will not be necessary. These measures are a compromise for diverging evaluations, but they also provide insurance against unforeseen events.

Is Greece running a new risk of default?

Greece needs money from the ESM – this is why we agreed a new programme last summer. The situation has improved compared to some years ago: Greece has now a primary surplus, so it doesn't need money every month to finance its budget. At the end of July, there is a real need for liquidity due to a sizeable debt repayment. The sooner we get an agreement the better, to allow Greece to pay the domestic arrears. This is critical for the good functioning of the economy. So we are not close to any default. We are working to conclude the review and avoid the problems that occurred last year.

How much money have international creditors paid since the beginning of the 2010 crisis? Why haven't previous bailouts worked as they have for Ireland, Spain and Portugal?

Greece is an exception compared to other countries. This is why a third programme was needed. If we take into account the overall financial support of Greek's European partners and the IMF, we've disbursed already around €250 billion. There are three reasons why Greece is a different case. First: the starting position in terms of economic problems was far more serious than that of the other programme countries. Second: we've learned that the Greek administration is very weak, which affects their ability to implement the programme. Third: after the early 2015 election there was an interruption of the programme and backtracking on reforms – this had a huge negative impact on the economy, pushing Greece back into recession.

Why should the bailout plan work this time?

The main reason is that the second Syriza government received a completely different mandate in the September election: to implement the reforms agreed with the European partners last July/August. The level of commitment by the government changed completely from the first half of the year. There is also a new finance minister, Euclid Tsakalotos, who is cooperating rather well with the institutions.

The ESM is often considered as the European Monetary Fund. However, Germany, Finland and Holland have required to have IMF participation before approving the €86 billion program. Wasn't the ESM enough?

It's not really correct to say the ESM is the European IMF. In Europe we follow a different model: competences are distributed among several institutions, the European Commission, the ECB and the ESM. Cooperation with the IMF has been important since 2010. This cooperation is also established in the ESM treaty - the IMF should participate in our programmes whenever possible. This has worked well and it would be wrong to change this institutional team, after successfully solving the crisis in other programme countries. At this point in time, it is not really a question of IMF funding but of using the IMF's technical expertise.

As head of the EFSF and ESM, you've supported countries in difficulty during the crisis. What lessons have you learnt?

Looking backwards, five countries needed help over the last six years. Four cases were successful. That happened because they have implemented reforms. It's an encouraging outcome. Then we've adopted important measures at European level to strengthen the Monetary Union, like the creation of the Banking Union. Monetary policy was also important to stabilise the situation, as was the establishment of fiscal backstops: the EFSF and ESM. Today, the Monetary Union works better than it did before the crisis.

Is Italian debt a threat for Europe, given that it is after Greece the highest in Europe? Or is it manageable due to ongoing reforms?

Italian debt-to-GDP is indeed the second highest in the EU after Greece, although the gap is big. Also, the two countries are not really comparable, Greece is in a completely different situation: it lost market access five years ago and needed huge amounts of money to stay in the euro area. Italy never lost market access. A few years ago, interest rates went up but Italy always managed to refinance itself in the markets. But the debt level is high and it has been high for a long time.

In the run-up to monetary union, the Italian government and central bank made a strong commitment to reduce the debt level, which was the highest in the EU. Developments since then were a bit disappointing, in particular before the global financial crisis.



The current Italian government has set debt reduction as a priority. It is encouraging that reforms are being implemented, for instance in the labour market. Over time this will raise the growth potential of the economy, which will help bring down debt-to-GDP levels.