

## Transcript of interview with Klaus Regling, ESM Managing Director

Published in *Der Standard* (Austria) on 25 November 2016

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*Der Standard: Interest rates are rising. That is a burden, especially in euro area countries in the south. Will there be new tensions in the currency union?*

Klaus Regling: No, I would not call that tensions. Interest rates have been incredibly low. Everybody was aware that they would rise one day. Everybody is taking this into account.

*Debt levels in some eurozone countries are enormous. Isn't the interest rate burden bigger than some countries can manage?*

Of course, problems with debt are not a phenomenon of the past. During the global financial crisis and shortly afterwards, we had a very active fiscal policy. That was a conscious decision of the G20 and all EU states in order to counter the effects of the Lehman collapse. As a result, debt levels are more than 30 percent higher than they were 10 years ago. A rise in interest rates obviously affects countries with high debt levels such as Italy more than countries with low debt levels. With a debt level of 130 percent of GDP, each rise in interest rates is expensive for the government, that is logical. But all people concerned are aware that interest rates cannot stay at this low level of the past years.

*How do you judge the situation in Portugal?*

We are monitoring the situation. The recent decisions on wages, working time and holiday could lead to a reversal of the progress in competitiveness that was achieved during the assistance programme. Additionally, the problems of the banks have not been fully solved.

*Shouldn't the past years have been used to reduce debt more forcefully?*

Yes, of course. The opportunity has only been used by few. Nevertheless, one has to acknowledge that there has been budgetary consolidation. That was certainly the right thing to do. Today, the deficits are on average below two percent of GDP after they had been six percent in 2010.

*On the other hand, many economists and politicians are attacking consolidation policies in Europe because they lead to weak growth.*

I would not call this weak growth. It is above potential growth, which does not return to past levels because of demographic reasons and perhaps also because of the debt levels. We have to get used to weaker trend growth. We can argue about the speed of consolidation and be of different opinion for each country, but all member states agreed that after the fiscal stimulus of 2009 and 2010, consolidation was necessary. Otherwise we would have a deficit of six percent in the euro area. We have reason to be satisfied, particularly in comparison to other big economies such as the US, Japan or the UK, where the deficits are two to three times higher than in the euro area. Within the euro area, we have very different situations. It is understandable that Germany does not run a deficit, given the good economic situation and against the backdrop of demographic developments. Other

countries have not advanced as far. Among other things, they are lagging behind in the economic cycle. By the way, Italy has had a deficit below 3 percent for a long time. The commitment to bring deficits towards zero is binding for all countries.

*But this requirement is pushed off every year for France, Portugal and other countries.*

There is progress in all countries.

*Is the worst behind Greece in economic terms?*

I would say that Greece is reaching that point again. We were there already in 2014, when growth returned and the unemployment rate declined by two percentage points. At that moment, Greece was able to issue bonds on the market again. These were clear signs of improvement in Greece. But then we had the relapse in the first half of 2015 when a new government took over. There was a new finance minister who tried to implement a totally different strategy and that was very expensive for Greece. Many reforms were rolled back and Greece fell back into a recession. All this led to the third rescue programme. Now we are at this point for the second time. If Greece had stayed on the path of reforms, one could have saved a lot of time and money.

*How satisfied are you with the implementation of the programme?*

Implementation of the programme is slow and often with delays. But if Greece implements the reforms with determination, the country has a good chance to get out of the crisis. There already is a primary surplus in the budget. Competitiveness has been restored to a large degree thanks to internal devaluation with lower wages and pensions. But this process does not stop, more reforms of the labour market and privatisations are necessary. At the moment, growth and budgetary developments are better than we imagined and that is very good. But there are many points where improvement is necessary. I do not want to dramatise but further adjustments are necessary in the budgetary plans.

*There are still huge shortcomings with the tax collection.*

The efficiency of the tax administration is very weak. That is also true for the administration in Greece in general. That is one of the reasons why we are in the third programme. The other countries that have received assistance from us – Ireland, Portugal, Spain and Cyprus – have all only needed one programme in order to get back on their feet. One of the reasons is that implementation was much better. There is progress with the Greek administration, but we should not expect miracles, this is a task for a whole generation.

*Why don't high-earners and the wealthy contribute more?*

I wish it was as simple as this. Rich people have very different possibilities. A successful ship-builder has to have accounts all over the world. In such a situation, it is much easier to move money in full legality. It is very difficult to come to terms with that. Of course, social acceptance is very important for an adjustment programme. Acceptance suffers, when the lower income categories see that the rich get off the hook easily. That is not only annoying. That can also be a barrier for the good implementation of reforms. But unfortunately there is no silver bullet.

*In Greece there are some special cases. For example, there are existing lists of people who have taken their money outside the country and against whom nothing is done.*

I am not sure that Greece is really a special case in this regard. You had similar things in the crises in Latin America, Africa or Asia. And by now the Greek authorities are working on these cases.

*But these cases don't have to be used as examples.*

No, they are not examples. It is annoying but it is very difficult to address the root causes.

*Does Greece need further debt relief?*

Many people have forgotten that Greece has benefitted in 2012 from the biggest debt relief in world history. Private creditors wrote off €100 billion and the public creditors significantly improved Greece's loan conditions. That is equivalent to debt relief for the Greek budget by public creditors of over €8 billion per year. That is the solidarity of the euro area for Greece. In exchange, they have to accept some adjustment measures. As a result of that, Greece currently has no problems with debt service. But at some point in time, the redemption payments will rise. When the programme ends in August 2018, there will be an analysis of debt sustainability. If there is a need, we will act. A debt reduction is excluded and not even the Greeks ask for it. If necessary at all, the goal will be to improve the loan conditions once again, for example, the loan maturities.

*The IMF has a different view.*

No, that is not true. The difference with the IMF is that the IMF would like to decide the debt relief now already. But the IMF is not requesting a debt cut.

*Could the change in the White House herald a change in the IMF's large engagement in Europe?*

I cannot look into a crystal ball. We are all waiting for more concrete details about the political plans of the new US president, also regarding the IMF. But probably one cannot exclude anything.

*What is your intermediary assessment of the assistance programmes for the eurozone?*

Four of five countries have implemented their programmes well. That is a success story. Ireland, Spain and Cyprus are among the countries with the highest growth rates in Europe. Unemployment is lower in Ireland than before the crisis, in Spain it is falling by three percentage points per year. Something is happening in these countries. These countries have implemented more reforms than almost any country in the world.

*The eurozone is still heavily burdened by risks from the financial sector. Why is the eurozone lagging so much behind the US in this respect?*

We have not acted as radically and as quickly as the Americans. They have really cleaned up their banks and that included a large amount of public money. But overall, the European banks are doing much better today than before the crisis. Compared to 2008, their capital has doubled. But it is true, many banks have problems. The non-performing loans are high in Europe and that lowers profitability. However, 52 percent of the non-performing loans have been provisioned. In addition, there is collateral in the magnitude of 60 percent on average. That means, in principle the problems are covered on average. Therefore we have no banking crisis across the currency union, but we have individual problems in individual countries.