

Interview with Klaus Regling, Managing Director, ESM

Published in *Ta Nea* (Greece) on 3 September 2016

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Ta Nea: When will the short-term measures for debt relief be ready and do you think they will be strong enough to be to be meaningful?

Klaus Regling: We are working on them, they could be implemented very soon. But some euro area members consider that the first review is not yet concluded because there are a number of milestones, which are related to reforms agreed for the first review, that are still outstanding. The Eurogroup statement in May clearly says that the short-term measures can only be implemented once the first review is concluded. We hope that the government will implement the remaining milestones very soon. In the context of the second tranche, we have already disbursed €7.5 billion to Greece. The ESM waits to disburse another €2.8 billion to Greece once all conditions are fulfilled. Let me also remind you that the debt relief measures for Greece depend on the government's commitment to the medium-term target of a 3.5% primary surplus after 2018. It is critical that the government does not deviate from its fiscal target and honours this commitment.

Will there be a stabilisation of interest payments?

That's part of the short-term measures. The extent depends on what we do in agreement with the Greek debt management office, because there are different ways to do it and different trade-offs. The more we stabilise future payments, the higher the cost will be initially. This is not for free. If we make sure that interest rates are locked for longer, it means that interest rates cost will go up in the earlier years. That's why we need to discuss it with the Greek debt management and the other beneficiary countries, to see what their preferences are.

Is Europe going to specify the medium and long-term measures? So that the whole package is more meaningful, stronger, so that the IMF is persuaded to come back to the programme?

In my view, it is a strong package and it is also very specific. But as I said, it is very clear that full implementation will only happen after the ESM programme is concluded successfully and also the full extent of these measures will only be decided then, in light of the debt relief needs.

If the needs are higher, more relief will be granted and that's good for Greece, but if they are lower, then other euro area countries will be happy to grant less. I know the IMF would prefer to take decisions earlier, but there is a good reason to do it later because then we can be more certain about Greece's real needs - that was the preference of the Eurogroup.

So you don't expect some specification of the medium and long-term measures in the near future? Because we know that the government is investing some hopes in this, during this fall, for the measures to be more specific, to give a signal to the market, that Greece will not bear this big burden.

At the moment there is no big burden anyway. The debt service for Greece now and for the next few years is very small. Smaller than for most euro area countries.

That's true, but investors look to long term...

I think investors look very carefully at the decision of the Eurogroup and they understand what was decided - it's a combination of a successful implementation of the programme and then a series of debt relief measures according to the exact needs at that time. And that is seen as positive by investors.

Regardless of the debt relief measures, do you think the IMF will return to the programme or not?

The IMF has been a valuable partner in the adjustment programme. The statement of the Eurogroup in May talks about the IMF and the IMF agreed to this formulation, so they will make a new debt sustainability analysis by the end of the year and we hope very much that they will then submit to their Executive Board an IMF programme, as was requested by the Greek government. The Eurogroup very much wants the IMF to be on board.

What about the second review? If the milestones are fulfilled by the end of September, will it start in the beginning of October?

It may also start earlier, in parallel, because the second review involves important policy questions and it will take some time. The earlier we make progress, the better.

Are you referring to the labour market?

It's one of the issues, but there are many others. It's all written down: a list of issues related to utilities, the energy sector, the privatisation agency, the labour market reform, public administration. Hopefully it will be concluded well before the end of the year.

You have said before that the government needs to take ownership of the programme. Do you think it has done it, because there have been some comments from some ministers, where they doubt some parts of the privatisation programme, for example.

I also see these comments from parts of the government, although not from the finance minister or the prime minister. On privatisation, there are voices that question the commitments made. That is disturbing of course and it shows that there is no full ownership of the programme within the entire government.

What is your opinion about the goal of the government for a lower primary surplus target than that of 3.5% of GDP after 2018? Don't you agree that after so many years of austerity, there has to be a gradual relaxation for the Greek people?

The primary surplus target of 3.5% of GDP in 2018 and the medium term was agreed by prime-minister Tsipras in July last year. It was one of the very important elements of that agreement. The text is very clear, it talks about 3.5% of GDP in 2018 and the medium term. It is correct that medium term is not defined but I think that most people would agree that medium term means more than one year. It also does not mean it is forever.

Well, but couldn't there be more flexibility? Stournaras also raised the issue ...

Sure, and he is a much respected governor, but the agreement is very clear. I see no appetite to give up this agreement and I don't think it will be in the interest of Greece to question an agreement that was reached last year.

I have said it when I was in Athens in June. I don't think the view has changed on that. And I am just reporting what I hear from the members of the euro area. It is not my personal view. It is how the agreement of last July is seen by those who signed it.

Another thing that came up is the case of Georgiou and ELSTAT. The Commission took a very strong position on this, saying that nobody should question the data on which the programme was based. Do you agree with this opinion?

Absolutely. These are not only data produced by ELSTAT, these data have been verified by Eurostat. We have worked with those data, they are the basis for the third programme and my understanding is that the Greek government does not question the data.

Is there going to be another programme after 2018?

My expectations are that it will not be needed. Of course, I assume that the current programme will be fully implemented by the government.

The Greek population can be proud of what has been achieved in the past, regarding the reduction of fiscal deficit and improvement of cost competitiveness. Both were painful processes, but it has happened and it does not need to be repeated. Now, I can only encourage the government to continue with the remaining issues, the structural reforms, reforms in the labour market, energy sector, utilities, in order to reap the full benefits of having higher growth in the future and if that happens, as it is foreseen in the programme, then I see no need for a follow-up programme after 2018.

So, we will enter an era of independence from ESM financing...

With the help of our very cheap financing, Greece should, by then, be back on a good track and not need any additional assistance. EFSF and ESM are a long-term partner for Greece, we provide substantial amounts of money at interest rates that are extremely low and this leads to big savings for the Greek economy. The savings for the Greek budget that are related to our cheap funding are about €8 billion every year and that's 4.5% of the Greek GDP. This happens every year and it will go up because our disbursements continue to happen.

And when do you expect Greece to return to the markets? Is the inclusion in QE a prerequisite for this?

No, I don't think it is a prerequisite. It would help of course, but if this programme is implemented as agreed, the expectations are that Greece can return to the market next year.

Next summer, or when?

I can't say which month. But sometime next year, and well before the end of the programme, because with the end of the programme Greece has to be back in the market - as we will not be financing anymore. Of course, the loans we already disbursed to Greece will continue to be there. Already now

half the Greek public debt is with the EFSF and ESM - that will stay for 30 years. But we will not continue to add to that after the middle of 2018. Greece must then really return to the market. It's important that Greece starts that return beforehand, so that markets get used again to Greece as an issuer, instead of relying on our financing until the very end of the programme by the middle of 2018.