

Handelsblatt, 6 March 2015

Greece needs to repay its loan in full

Handelsblatt: Mr. Regling, the euro rescue fund EFSF has lent around €142 billion to Greece and is thus by far Greece's largest creditor. Are there realistic chances that this money will ever be repaid?

Regling: Greece has to repay that loan in full. That is our expectation, nothing has changed in that regard.

Handelsblatt: Prime Minister Tsipras has a different view. He is still asking for debt relief.

Regling: The communication of the new Greek government was sometimes irritating in the last days. The request for debt relief is in contradiction with the decision of the Eurogroup of 20 February. In that decision Greece agreed to honour its obligations towards all its creditors.

Handelsblatt: But the Greek government now claims it has not voluntarily agreed to this decision. Tsipras even talks about blackmail.

Regling: That is one of several recent statements that have irritated me. I fully understand that a government is still finding its way into the new role 5 weeks after the elections. But this is no way to treat others.

Handelsblatt: Does this also apply to the Greek attacks on Spain and Portugal?

Regling: The government in Athens has attacked Spain and Portugal in a way that I find unacceptable.

Handelsblatt: Tsipras claims that the conservative governments in Madrid and Lisbon are out to eliminate his left-wing party. What do you think of that?

Regling: I think this is simply wrong. What is true is that there is a fundamental difference between Greece and the other euro countries about the economic policy strategy. Greece wants many things done differently. But in Spain and Portugal, the mix of consolidating budgets and structural reforms has yielded good results so far: the economy is growing again and the budget deficits are decreasing. By the way: this was true for Greece as well until last fall. Growth returned in the third quarter and the budget showed for the first time a small primary surplus. But the new Greek government now wants a change of direction and that greatly worries me.

Handelsblatt: But Syriza is not alone criticizing the consolidation policy. There are also renowned economists who argue that the debt burden is too heavy for Greece and that this kills the economic recovery.

Regling: Economists who claim this have not done their homework. It is true: the Greek debt level of around 175% of GDP is very high. But this does not burden economic development because the debt service is very low. The EFSF has suspended interest payments for Greece for 10 years and the average maturity of our loans is around 32 years. Italy, Spain and Portugal need to pay much more to their creditors in relation to their GDP than Greece.

Handelsblatt: So it is excluded that the Eurozone cuts Greece's debt.

Regling: First a nominal debt cut is economically not necessary and secondly it is politically not feasible. The Eurozone is not a transfer union despite the fact that some German academics claim this again and again. The EU Treaty of Lisbon prohibits a partner country from being relieved of its debt. What one could envisage however is another extension of loan maturities. The Eurogroup has already hinted at that additional relief in November 2012.

Handelsblatt: The Eurozone and the International Monetary Fund have already granted loans to Greece in the volume of around € 240 billion. Where did all this money go?

Regling: With financial volumes of this magnitude at stake this is a justified question and the answer is no secret: around three quarters of all the loans for Greece have been used to serve the country's debt to private and public creditors. The remaining quarter went to the state budget to cover running costs.

Handelsblatt: So it is mostly the banks and the funds that have benefitted from the rescue loans?

Regling: Of course. That is totally normal in countries with high debt. Had Greece not serviced its debt with the help of the EFSF and the IMF, the country would have gone bankrupt and it would not been able to get private capital for a long time.

Handelsblatt: The banks don't suffer while the Greek citizens have to accept big sacrifices. What is your response to that reproach?

Regling: My response is that this is not true. Banks and other private creditors had to scrap more than half of their claims to Greece. They had to accept a big sacrifice. That was the biggest debt cut in history.

Handelsblatt: Critics claim that this debt cut should have come much earlier.

Regling: It would have been cheaper if the cut had been made earlier with big debates. The long discussions on that have shaken investor confidence and that has created unnecessary damage.

Handelsblatt: What other mistakes has the Eurozone committed in Greece?

Regling: The Eurozone's economic policy approach in overindebted states, which is to grant rescue loans in exchange for economic policy conditionality, has paid off in principle. The good results are the

proof for that. In Ireland, Spain and Portugal the economy is growing strongly again and even in Greece things were going in the right direction in the third quarter of last year. I don't claim however that no mistakes have been made. Crisis management requires quick decisions and mistakes happen.

Handelsblatt: Which were these mistakes?

Regling: Since 2009 the Greek economy has shrunk by 25%. None of us have seen such a fall before that. Our projections have been too optimistic.

Handelsblatt: The IMF thinks the extreme recession is caused by an exaggerated austerity policy. Do you agree?

Regling: If the budgetary consolidation in Athens had happened at a slower pace, Greece would have needed even more money. But who would have granted the additional loans? The German Bundestag and other national parliaments? The IMF would have not done it. Seen from this perspective, I find this criticism a bit cheap.

Handelsblatt: Greece will never be able to repay the loans without economic recovery. Isn't Tsipras right when he asks for a European pact for growth in Greece?

Regling: First and foremost it is the Greek government's task to stimulate growth. Europe is helping a lot, particularly with the extremely favourable lending conditions. In servicing its debt, Greece has saved € 8.6 billion alone in 2013, that is equivalent of 4.7% of GDP. For the years to come there should be similar savings. Add to that billions in payments from the EU structural funds that represent 3% of Greek GDP every year. That is Europe's solidarity with Greece. In return, we must expect that the government in Athens continues with the necessary structural reforms in the public administration, the health sector, labour market and in the pension system.

Handelsblatt: Ireland, Spain and Portugal are about to overcome their difficulties but in Greece the problems persist. Why? Does it have to do with history or mentality?

Regling: Greece was the most difficult case from the very start. It was only here where we had to deal false budgetary data. The deficit was over 15% in 2009, higher than in all other crisis countries. The state structures were in a sorry condition. Measured according to the criteria of ease of doing business, Greece was 109 out of 187 countries in a ranking of the World Bank five years ago. In the meantime, the country has made a tremendous leap forward by 49 ranks. This is still not sufficient as Greece is still the lowest ranked EU country. But it is a big progress that should be acknowledged.

Handelsblatt: Are you not afraid that Syriza will now destroy this progress?

Regling: I trust that this government will learn. But I also see the danger that the country's competitiveness that has just been regained is put at risk again. If the government increases the minimum salary and pensions, it raises the labour costs and government expenditure goes up.

Handelsblatt: How do you appraise the current condition of state finances in Athens?

Regling: The primary surplus which we had already taken for granted is melting away. I fear that there will even be a deficit again. The government wants to increase spending and at the same time tax revenues are in free fall. One can only hope that the government will soon use its emergency break. It has to make it clear to the citizens that they do have to pay outstanding taxes rapidly. I am missing a clear statement in this regard by finance minister Yanis Varoufakis.

Handelsblatt: Will the Eurozone have to grant a third loan package to Greece? There is talk of €20, 30 or even 40 billion?

Regling: I read these figures and I am puzzled. Nobody knows at this stage if and how much of a loan Greece will need this summer. Prime Minister Alexis Tsipras even said recently that he does not want any new loan package at all.

Handelsblatt: Experts fear nevertheless that Athens will be short of money in April and it won't be able to reimburse the IMF loan of €1.6 billion that will come due by then.

Regling: I am also worried about the liquidity situation in Athens. But we do not have an exact overview yet.

Handelsblatt: Will we see one day Greece able to finance itself on the financial market again?

Regling: I very much hope so. At the moment the country has lost much trust with international investors, though. The Greeks had been making good progress. 9 months ago, the country only had to pay 5 % interest on a 10-year government bond. Today investors are asking twice as much again.

Handelsblatt: The Eurozone has given France for the third time additional time in order to get the deficit below 3%. What does this mean for the credibility of the stability pact?

Regling: France has to undertake additional saving measures this year and it is also getting the structural reforms going. So it is positive news that things are happening in Paris. At the same time, the budgetary rules in the stability pact have gotten so complicated that it becomes increasingly difficult to keep an overview. For this reason it was necessary for the Commission to lay down in writing how to interpret these rules. In this process it is important that the rules don't completely disappear behind the interpretation. If this happens, nevertheless we may have to take a different route and we may need to substitute rules with common economic policy decisions. Perhaps we are getting now closer to this point.

Handelsblatt: The extremely low interest rates help all euro countries to cope with their sometimes very high debt. But what happens once the interest rates go up again?

Regling: Everything is relative, also public debt: In Japan it is twice as high as here and in the US it is higher than in France. Despite that, I am not belittling debt. Without doubt it is too high and it needs to be reduced further. This is necessary also because the level of interest rates will not remain at a

historic low forever. A rise in policy rates is already to be expected this year. Europe is running after the US when it comes to economic cycles and that is the reason why the interest rate rise will be later here than in America. Because of demographic developments, growth will not reach the heights it had reached before the financial crisis. Correspondingly, interest rates will probably remain lower. But in any case they will be higher once again in the foreseeable future.