Interview with Klaus Regling, Managing Director, ESM

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By Jack Duffy

Q: Greece wants to exit its IMF programme early. Do you think it is ready to stand on its own in the markets?

A: Nobody knows for sure. We are waiting for the review, which has started. It is the fifth review from our perspective and the sixth for the IMF programme. We will also see the results of the asset quality review and the stress test. With these results, it will be a bit easier to say what makes sense, what is possible, what is not possible. In the Eurogroup (on Oct. 13), there was broad consensus that it would be helpful for Greece to have "a sustainable, credible and prudent exit," to quote from the statement of Eurogroup President Jeroen Dijsselbloem and I fully support that.

Greece made it very clear they want to conclude this review successfully because then they would get the final disbursement from the EFSF. There is E1.8 billion left under the existing programme with a total volume of E144.6 billion and that will be our final disbursement. But it depends on the successful conclusion of the review.

Q: Does a "sustainable and prudent" exit mean a precautionary programme or some kind of debt relief?

A: It could mean a precautionary programme. Precautionary arrangements are one of the instruments that are available. I think in the euro area there is a lot of sympathy for the idea that Greece should have a precautionary arrangement to accompany its reform efforts. That could be a useful fallback in case they do need more money.

Debt relief is a different topic. We will look at it once we have the results of the review, but I think the scope will be rather limited. The need is also rather limited. I've said this many times. There is no debt overhang in Greece. I know a lot of people look only at the debt-to-GDP ratio but that is a little bit too narrow. Because with the framework we created in Europe, we provide financing at such low interest rates - around 1.5% - at such long maturities - on average 32 years - that the debt service payments that fall due every year are very low, despite the fact that the debt ratio is very high. Many people have not fully understood that.

Investors do understand and that is one reason why issuing 5- to 7- year bonds for Greece is now relatively easy because investors know that there is no debt service payments problem for the next 10 years.

Q: Is there scope for extending the maturities of Greece's loans further, to say, 50 years from the current 32 years?

A: In theory, yes. But is more debt relief needed? There is a lot already there. We have quantified the positive impact that our lending has had on the Greek budget and the numbers are striking. The benefit in 2013 was E8.6 billion, which is 4.7% of Greek GDP. That's a lot money, 4.7% of GDP in one year. In 2008, the Greeks had interest payments of E13 billion. Last year they had interest payments of E5 billion. That's mainly because of us. Because we own 44% of the Greek public debt. These numbers are important to know because this is really the solidarity coming from the euro area to Greece.

Q: And you believe that Greek debt as its stands is sustainable?

A: Absolutely. As long as the reform process continues.

Q: Can the ESM help refinance Ireland's legacy bank debt, as the Irish government has long been seeking?

A: It has not been definitively ruled out in a legal sense, but politically I don't see a consensus there at all. So, at the moment, politically, I think that it is de facto ruled out. Also there is the question of need. Ireland now has interest rates well below 2% in its 10-year borrowing, which I think is clearly a reward for its adjustment efforts and for playing by the rules. And that helps the economy a lot.

Q: You supported Ireland in its bid to repay IMF loans early. Would you support Portugal if it made a similar request?

A: For Ireland it was a very clear case. Ireland clearly reached the point where market financing was much cheaper the IMF borrowing. And therefore it is in the interest of all the other creditors, including the EFSF, to see that Ireland replaces expensive borrowing with cheaper borrowing. Because it strengthens Ireland's debt sustainability.

Portugal has not made such a request. But we know they're thinking about it. So we will see when the request comes. It could be a similar consideration. Portuguese interest rates have also come down tremendously. They are now below the cost of IMF loans but the situation is not as clear cut as in Ireland. So we will see how the market situation develops.

Q: What is your view of the Eurozone economy? Peripheral countries are doing better but the euro area as a whole still looks very weak.

A: The countries the borrowed from the EFSF and the ESM are doing well. And if they continue the process they will be the best performing economies in Europe. Other countries that didn't go through programmes have to do better, particularly our largest economies in Europe. But we are not starting from zero here. In the EU we have the different coordinating and surveillance frameworks and every year the Commission proposes country-specific recommendations to each EU member state. These recommendations - which are formally adopted by the Member States - are designed to remove the obstacles to growth. They vary country by country. So everybody can look at them and see whether the countries are implementing them. For the biggest economies I see an implementation gap.

Q: Can the ESM help provide funds for Jean-Claude Juncker's E300 billion investment programme?

A: The new Commission President Juncker asked for ideas from several people and institutions. He also asked me whether the ESM could do something, which in theory is possible but requires a change in the ESM treaty. Because the ESM treaty clearly does not allow such use of its money or lending capacity. The ESM treaty is an international treaty. To change it requires ratification in 18 parliaments. And we knew from the beginning that that was a very difficult proposition. So the idea is there but I don't see a consensus, so I think President Juncker will need to use some other elements when he puts together an investment package.

Q: The ESM recently cut its Q4 borrowing requirement by E2 billion because of Spain's early repayment of its loan. Will early repayments of other loans cause the ESM to borrow less from the markets in the future?

A: Early repayment is possible but I don't think we will see much of that because our lending terms are so attractive. We are far cheaper than the IMF and cheaper than the markets for the countries that borrowed from us. So it wouldn't make sense economically to repay us. If the countries want to repay that's fine because it increases our lending capacity. And as a crisis instrument we want to have a lot of firepower. But think it is in the interest of countries to use our money for quite a while.

We are getting to the end of this crisis and I am very happy about that. Because two or three years ago many people thought we would never get out of the crisis. I was always convinced we would but I know there will be another crisis one day. It's part of our economic system. It happens. We don't know exactly when and what would trigger it. It is normally triggered by something that nobody had anticipated. But we know another crisis will come so it is good to have the ESM ready.

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