Interview of Klaus Regling, ESM Managing Director, with 'To Vima', Greece
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A few months ago, you said that Greece may need a third bailout. Have you changed your mind after the last troika review?

You are right. This is what I said a few months ago, because back then that was the most likely scenario. Also I wanted to signal that continued support would be available, if needed, as long as Greece continues to implement reforms. Today, things have changed. The developments in Greece are better, market developments too. It is still too early to say what happens after the summer. In the current programme, we still have 1.8 billion euros left, which will be disbursed depending on the results of the next review. There is also more money in the pipeline in the IMF programme. Then, we'll see if there is any gap left. If there isn't, this would be very good. The first objective of the programme is to move to a situation in which Greece will not need emergency funding anymore. It might also help if Greece could tap the markets. It might be possible now because markets have been very positive about Greece, but also with many other European countries. Greece is benefiting from money flowing to Europe. But Greece also starts to benefit from its own good policies, especially on the fiscal side, although structural reforms must continue. I do want to acknowledge the efforts of the Greek, many things have been done. According to the recent *Going for Growth* report of the OECD, Greece is at the top among all OECD countries in implementing structural reforms. We may actually get to a scenario where no additional external money is needed.

The Greek Finance Minister had said that Athens would test the "market waters" in the first half of the year. How do you think Greece should proceed?

Greece wants to test the markets. Ireland is testing the markets, Portugal too. That's appropriate. For Greece the success will depend on the country's commitment and determination to continue the reform process. There are three things which reflect market conditions: the market's view on Greece, the market's view vis-à-vis Europe and global developments. The Greek authorities have to decide what price they are willing to pay. The interest rate for 10 year Greek bonds in the secondary market are currently somewhat above 6%. This is actually almost 80% lower than two years ago, in March 2012. This is a very impressive development given where Greece comes from. But it is still expensive. Every bond that has such a high interest rates adds to the debt burden."

Do you believe that the IMF will stay involved in the Greek programme or the troika should change?

There is a short, medium and a long term part of the answer. In the short term, the IMF will participate in all the countries in which there is a programme like Greece, Cyprus and Portugal. There was a debate three or four years ago. But when the problems became so big and so many different countries needed support, we were happy to have the IMF, for two reasons: First, it has more expertise than anybody else in designing and monitoring adjustment programmes. Second, it contributed to the needed financing. In the medium term, we are preparing our own capabilities in Europe. The Commission is today more able to deal with these problems than when the crisis started. In the long term, there is another consideration. All countries in Europe are members of the IMF and they will continue to be members of the IMF. Therefore they have certain obligations and rights. Any country which faces problems can draw money from the IMF. There is no reason to give up that right while their obligations continue. I also think we need a global institution that keeps things together. We have several regional arrangements, in Europe, in Southeast Asia, in Latin America, in Africa. This is good because these regional institutions are closer to their member states. They understand their situation, they can help quickly when problems come up or before they become too big. However, in the globalized world the IMF is needed for the smooth functioning of the international monetary system. Therefore all regional arrangements should cooperate closely with the IMF. To sum up: At the moment no one wants to change anything. But as we are moving out of this crisis, everybody can be relieved to know that we have the ESM as a permanent institution in Europe for crisis resolution. Because economic history shows that there will be another crisis one day although nobody knows when. I don't know if the IMF will then be asked to participate. The answer will also depend on whether the crisis concerns an isolated case or whether it is of systemic nature.

Concerning the Greek debt sustainability issue, we have heard many varying views. As a haircut does not seem on the table, what are the options?

There will be a debate after the summer. The problem is that there are different ways to look at debt sustainability and that there is not a single definition everyone accepts. The IMF traditionally looks at the debt to GDP ratio over the next ten years. The reason is very simple. The IMF wants to be repaid after 10 years and to make sure that the country will be able to pay back. This is a good concept and has been used many times over the last few decades. In Europe, with the EFSF and the ESM, we have created a completely new system. We have maturities for our loans to Greece of 30 years, for Ireland and Portugal of 22 years. The interest rates of the EFSF are very low, half those the IMF charges. On top of that we have deferred interest payments for the next 10 years for Greece. There are almost no debt service payments to the EFSF from the Greek budget over the next 10 years. One must look at the actual debt burden for the next years. The situation for Greece is pretty good. Payments begin after 10 years, amortization starts only after 25 years. Therefore I do not see a problem of debt sustainability in Greece for the next 10 years which is very good news for foreign investors.

Do you believe that we could reduce the interest rates of the GLF so that all loans to Greece have the same format?

For EFSF loans interest rates have been reduced to the lowest level possible, basically to our funding cost which are currently around 1.5%. If they go below that, then somebody will have to give us money to pay for the difference because we will have to pay our bond holders. I do not see any appetite for that among member states. Concerning the loans of the Greek Loan Facility, the GLF, things are different. It's done on a bilateral basis. Some countries may have room to reduce interest rates but not many. Every country which has participated into this as a creditor has different interest rates and funding costs. Therefore, it sounds easy to say that the GLF interest rates could be made comparable to the EFSF. In reality this may not really be feasible for all countries. Countries that have higher interest rates than Germany, such as Italy or Spain, cannot be asked to lower their interest rates more because this would mean budgetary cost to them. However there might be some room for extending maturities for the GLF but that is for the member states to decide.

If the Greek private banks can borrow from private investors in order to recapitalize and the rest of the HFSF funds stay untouched, could the 11 billion euros left in it be used to cover a possible financing gap?

This is one of the unknown factors. Indeed, 11 billion euros has been left in the HFSF. Some people, particularly at the IMF, believe that all the money should be kept for the banks. I think that the Greek government believes that not all will be needed. We will only know when the Asset Quality Review (AQR) of the ECB and the stress tests are concluded, which should be after the summer.

Many claim in Greece that the 4.5% target for a primary surplus in 2016 is like "mission impossible". Would it be reasonable to relax austerity if a reduction to debt service is achieved?

I do not see that. The 4.5% target has been a cornerstone to regain sustainable public finances in Greece all along. Belgium had to have a primary surplus of around 4% of GDP for many years for only one reason: to reduce its debt burden. When Belgium entered the EMU in 1999, it had a debt burden of 120%. It managed to bring it under 100% during the following decade. The burden for the people is there only until the primary surplus is reached. When it's reached, there will not be additional consolidation efforts. It is important for the Greek population to understand that this is not done to please the troika. This is done to help the Greek economy and the Greek people. It will create room for the private sector to develop and to generate growth. This is in the interest of the Greek economy and particularly the younger generations.

I understand that you think that the "austerity doctrine" is vindicated but the big question is: how we can move to the "growth doctrine"?

Austerity is never an objective in itself. It is always a means to move back to sustainable growth. In my view, it is not the right assessment to say that austerity is separated from growth. The condition for sustainable growth has to be recreated. When the crisis hit and when, in Greece's case, the fiscal deficit reached 15.6% there was no base for sustainable growth. Bringing the fiscal deficit down, together with the structural reforms, was necessary. I understand the hardship this has put on many Greeks. This was not done to penalize the people but to create conditions for sustainable growth. This is what we have seen with many other countries, in the Latin American crises, in Turkey, in Asia. Countries in these regions went through tough adjustment. In the middle of the crisis, people went through difficult times, unemployment went up. But as the countries implemented the IMF programmes, they created the basis for sustainable growth, Jobs were created. Brazil, Turkey, Indonesia were the best performing economies in the world for a decade. The foundation for their impressive performance was created during their crisis.

The recent optimism about European economy is justified or should we avoid complacency?

We should be glad that markets are looking more favourably to Europe. But we should be aware that there is never a guarantee that this lasts. Markets tend to overshoot. This is another reason to continue with reforms, to reduce financing gaps and fiscal deficits, to make our economies more resilient and more competitive. Currently the early economic indicators like unit labour costs or the current account balance show that Greece and the other countries with an EFSF or ESM programme are on the right path. But I also know that people who saw their salaries and pensions cut or who lost their jobs don't necessarily see progress yet. But experience shows that the reforms lay the foundations for growth and that good early economic indicators announce a return to growth. Therefore people should be confident that their efforts will be rewarded and Greece will have a good future.

How do you define the ESM's role in Greece for the future?

I see the ESM as Greece's long-term partner. We will be there for the duration of the programme, of course. But our involvement with Greece will last as long as there are outstanding loans. Therefore we will cooperate with the Greek authorities for many years and we will do so on the basis of trust and respect.