**Transcript of the interview by Kauppalehti with Klaus Regling, Managing Director, ESM**

**Conducted by Jarno Hartikainen, Kauppalehti (Finland) on 26 November 2015**

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**After the very difficult situation last summer we were supposed to see a fresh start in the relationship between Greece and the rest of the euro area. However, we've already seen delays in the programme and some Syriza MPs supporting demonstrations that were essentially opposing government policies. Has the new Greek government restored trust, which was the essential thing to do after the summer?**

Indeed, in the first half of the year we saw a big setback. The first Syriza government under Prime Minister (Alexis) Tsipras reversed many of the reforms that were implemented in the past 2–3 years. That was a huge break in developments, because we must remember that the situation in Greece started to normalise last year. Growth came back for the first time after 5 years of negative growth, unemployment started to fall and the government was able to issue 5-year bonds twice. In that sense Greece had started to behave like the other countries that we've been dealing with during the past 5 years: Ireland, Portugal, Spain and Cyprus. Today we know those other countries are all success cases. They're all back in the market – even though the Cyprus programme is not over yet. All of them have growth again and are creating employment. They've all improved their competitiveness and current account balances. Four out of 5 are success cases, and Greece last year was in the process of joining the other success cases. This is an important backdrop. Greece is not a bottomless pit. Some people say it is. But the experiences from last year show this is not the right assessment. With the right reforms, Greece can also become a success case. They're not a success case at the moment. Right now they're trying to compensate for what went wrong in the first half of the year.

But there is a fresh start. The cooperation is quite good. It doesn't mean it's easy, because Greece has to deal with complicated issues here, but some trust has been established again between Greece, the institutions and the Eurogroup so that one can work productively together.

We've come a long way since the summer. €13 billion were disbursed to Greece earlier, another €2 billion last week. In addition, €10 billion are sitting in a special account earmarked for bank recap. We know the Greek banks need some capital but not very much. It looks like the banks need less than €10 billion, compared to the initially foreseen €25 billion earmarked for bank recap. That's good news for Greece and for us, and that's one reason why the €86 billion in the programme won't be needed as a whole, because at least the €15 billion earmarked for bank recap won't be needed. That reduces the €86 billion to €71 billion. I also expect the IMF to come in some time in the next year. Whatever they contribute will also reduce the need for disbursements from the ESM.

**If we step back and look at the bigger picture, the whole reform path that the Greek economy, administration and the society as a whole was meant to go through in the readjustment programme, where is Greece standing at the moment? How much is there still left to be done?**

It's a good question but not very easy to answer. In certain areas one can be precise, like fiscal consolidation. Five–6 years ago Greece had a budget deficit of 15% of GDP. Last year that had come down to around 3%. On the fiscal side most of what is needed has been done.

The other areas are more difficult to quantify, but we know from the institutions that try to quantify the progress in implementing the structural reforms that Greece has done quite a bit. The OECD has said for several years in a row that Greece has made more structural reforms than any other OECD country. The World Bank comes to exactly the same result. It doesn't mean everything is perfect in Greece, far from it, but it means the progress is there. Otherwise different institutions couldn't have come to the very identical result.

There's still enough to be done. For example, the Greek pension system is the most expensive in Europe. Something has to be done about it, everybody agrees with that. Tax administration needs to be further strengthened.

**When can the talks on the further debt relief measures start?**

The Eurogroup has said it is willing to look at it after a positive conclusion of the first review. This was supposed to happen before Christmas but this is now unlikely.

The starting point is to have a very clear view of what has already been provided to Greece. And this is substantial. With the backing from our member states the ESM can raise money in the markets very cheaply and then pass these low funding costs on to our borrowing country. Greece gets huge benefits from this, compared to the country itself going to the market, even if we disregard the very high interest rates (Greece faces) at the moment. Let's say we take a normal interest rate for Greece as it existed before the crisis, around 5%. We are able to provide loans to them at less than 1%. We have calculated that Greece gets a budget benefit of about €8 billion a year in savings on its debt servicing costs. That's more than 4% of Greek GDP.

We have done a lot already, and Greece has benefited from that. We can do a bit more with similar measures, maturity extensions and interest deferrals, but there won't be a nominal haircut. This is what makes sense because the reference for debt sustainability cannot only be the ratio of debt to GDP. We have to look at the real financing needs of the country. This is what is relevant for policy makers and markets.

**How difficult do you expect these debt talks to be?**

It's never easy when we deal with Greece. In the beginning of this year, the government had unrealistic expectations regarding debt relief. They wanted a nominal haircut. Now they understand it's not feasible, and I think it's not necessary. Now their expectations are more realistic, which should make the talks a bit easier. But these are important questions for every country and also for the euro area, so it won't be easy.

**What kind of measures do you foresee the Eurogroup taking? There seems to be a common understanding that Greece needs debt relief.**

Not in the short run because they hardly need to pay any debt service for the coming 8 years. What we will be discussing will help more in the medium term. Their debt servicing costs to GDP until 2022 are smaller than in many member states. There's not much we need to do there. It's more about ensuring that they can service their debt in the medium term. It's also an important signal to the markets - they don't need to worry about it and they can invest in Greece again.

**In their most recent debt sustainability analysis in June, the IMF calculated that in order to secure the sustainability of Greek debt there should be an extension of 20 years to the grace period and of 40 years to the amortisation period. Is this something that could realistically be expected to happen?**

This has not been discussed in the Eurogroup or with the IMF. I think it was an initial assessment. It was made before the latest forecast and we already know that the Greek economy is doing better at the moment than when the programme was agreed (in August). Interest rates are now even lower. That affects debt sustainability by reducing our own financing costs, which we pass on to Greece. Institutions will assess debt sustainability again at the beginning of next year taking into account the current economic environment. Then we will see what is really necessary. I cannot answer that question now in precise terms.

**There have been ideas that debt relief could be granted in tranches as happens now with the emergency loans. Do you see this actually happening?**

It is a possibility in order to have conditionality in place for longer. The programme will run until July 2018. By then Greece should be able to fully finance itself on the markets again. Such debt relief would be effectively granted quite a while after the programme is over. It could still be linked to some kind of conditionality to monitor and to make sure the reform process continues after the programme is over. We haven't done that in other cases, but the other cases have also been easier in terms of debt sustainability.

**You said that you expect the IMF to join the programme at some point next year. How clear is it that they will do so? It was on Monday when the president of the Eurogroup said the IMF had signalled that they were willing to participate, but that there were conditions.**

In a way they are already there, because they were part of the recent mission together with the other institutions. They are in all the meetings and know exactly what's going on. We know they are waiting for a few important decisions like the pensions reform and they want to see how the debt relief discussion is going. I'm fairly optimistic that we will reach a result here and they will join. The amount will be small. It's not like in the beginning, in the first Greek programme, when the IMF contributed one third. More recently in Cyprus this was down to 10%. Though the amount will not be large, for several of our member states it's important to have the IMF on board. Not that the money couldn't be mobilised from Europe, but the expertise of the IMF is very much welcome.

**If, for instance, the debt relief talks don't go as the IMF wishes and it says it cannot be part of the Greek programme, what would happen with the ESM? Could Europe still continue to finance Greece?**

In the end this a decision of our member states. Again, I'm fairly optimistic we will come to an agreement, because both the European partners and the IMF want to help Greece.

**During the negotiations last summer there was an actual threat that Greece might be forced to leave the euro zone. Do you think the possibility of Grexit is now permanently off the table?**

Yes, at the moment that is not part of anybody's scenario. It was very close in the summer, that is true. The possibility had to be there because if a country never complies then that might be the only possibility, but it was always clear to me that it would have been the most costly solution for all sides. So I'm very happy it was possible to avoid that, and at the moment it is not part of our scenario.

**But the crucial words are "at the moment". Once the possibility has been publicly raised, it will always be there.**

As a theoretical, hypothetical concept, yes, because if a country refuses to cooperate completely it cannot expect to receive money from its European partners. So in that sense, yes, but now after the elections in September Mr. Tsipras is the same prime minister but this time with a very different mandate. He now has the mandate from the voters to implement what was agreed. Before he didn't have that mandate. So why would he not do that? From everything I've seen since August-September it's very clear the government is willing to implement reforms. It's not always easy to agree on the details but the direction is again very clear.