Interview with Klaus Regling, Managing Director, ESM

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Greece is expected to start negotiations with the Eurogroup in a few months about permanent debt relief measures. The EFSF and now ESM hold a total loan of about €141 billion to Greece. What do you think would be the solution for the permanent debt relief?

There is already a great relief on Greek debt. The EFSF gave Greece loans of a volume of almost €141 billion with an average maturity of 32 years and at very low interest rates. As a result we are really a long-term partner of Greece. The long maturities and low interest rates imply significant savings for the Greek budget and the Greek economy, if you compare with what Greece would have to pay if it went to the markets. For 2013 Greece saved €8.6 billion and the estimate for 2014 is similar. If you divide the amount of savings by the Greek population you see that every household is saving about €3000 every year. The interest rate we charge is basically our cost of funding. Thanks to the guarantees of the best rated euro area countries, the EFSF has a very strong rating. The fact that Greece gets loans at such favourable interest rates is an important act of solidarity of the whole euro area with Greece. Lastly, a permanent solution would also have to come from the government, a solution that generates funds to pay back part of its debt on its own, for example through privatisations and fiscal savings.

Will the commitments of the Eurogroup's meeting in November 2012 be fulfilled?

The decisions of November 2012 are not forgotten. But the decision has two sides. The Greek government promised to continue with the reforms. On the fiscal side that includes the implementation of a medium-term fiscal framework, which means that there would be a sizeable primary surplus in 2015 and even a larger one in 2016. Structural reforms are also an important part of the programme and here we still have unfinished business. The Eurogroup made the commitment that if Greece meets all these preconditions, it will consider additional relief. The Eurogroup will discuss this matter after the conclusion of the troika review which starts in September. We need the analysis and the forecast of the troika. The evaluation of last year needs to be updated because many parameters have changed.

In the discussion on the solution of Greek debt, some are referring to reduced interest rates and longer maturities. Could that be the solution?

For the moment these are options. The Eurogroup will look at them later in the year, so for the time being nothing has been decided. But it is a fact that the interest rates of EFSF loans cannot be reduced further because we are just charging our cost of funding. If we lowered the interest rates further we would make losses. But there are also the bilateral loans. On these loans there could perhaps be some room for reduced interest rates. There are many different options and I can't say today which one of these option might be used.

After 6 years of recession and 4 years of austerity measures, what would be the answer for the recovery of Greek economy?

Structural reforms are really the important part of the answer. Of course, fiscal consolidation is also very important. It was the precondition for ending the crisis. As you know, the fiscal deficit in 2009 was 15.6% of GDP. There was no alternative to reducing it. Fiscal consolidation and structural reforms come hand to hand and a lot has already happened on both fronts. But this is not the end of the journey. More structural reforms will be needed to generate higher growth in Greece. Structural reforms may not show results immediately. But economic history is very clear. Structural reforms do lead to stronger growth after some time. Countries that were in a crisis in the past like Turkey, Asian or Latin American countries also had a very hard time when the reforms started. Unemployment was high and people suffered. But after the implementation of the right reforms, they recovered and maintained high growth rates.

But there is a big difference with Greece. The countries you mentioned all had their own monetary policy.

That is true. But monetary policy is already very loose in Europe. It can't get much looser. Obviously these countries could depreciate their exchange rate. Indonesia did that and its currency lost 90% of its value. But that meant that the value of all debt in foreign currency went up 10 times. As a result many companies went bankrupt. Devaluations can be very negative. You know when a devaluation starts but nobody knows where that ends. Structural reforms on the other hand lay the basis for a sustainable recovery. If the reform process in Greece, Portugal and Ireland is completed, it will make these countries competitive. I am very optimistic for Southern Europe in the medium term.

Don't you worry about a "reform fatigue"?

Reform fatigue is an issue. It is natural for people who went through so much adjustment to get tired of that. That's why I stress the benefits that are coming and will come as a result of reforms. Greece has already come a long way and the Greek population deserves recognition for that. It would be wrong to give up all the benefits now that they are within reach. If the structural reforms are implemented in Greece, growth rates can be quite high. Higher growth rates mean higher living standard, more jobs and a prosperous economy.

Do you think Greece will need additional funding in the coming years, a new programme?

It is unclear today if a new programme is needed. It depends on many variables. For example, there is some money that is still in the HFSF. This is money that came from the EFSF to support Greek banks. If this money is not needed for bank recapitalisation, it could be used for budgetary financing. Also, Greece has been able to tap the market with bonds recently. And of course, we have to wait for the results of the troika review in order to have a much better picture of the situation and what will happen in the next 12 months.

Is there any room for "mutualisation" of the debt of European countries in the near future?

You mean additional mutualisation. Some mutualisation has already happened because the EFSF and ESM grant loans with very long maturities and very low interest rates for Greece and the other programme countries. But I don't believe we will have more mutualisation in the next few years.

There have been far-reaching proposals about Eurobonds and about pooling some debt of the Euro area countries. But these have been rejected by the majority of euro area countries as they could create the wrong incentives.

What will be the role of the IMF in the future in European bail-out programmes?

The IMF is an important part in the euro area's current crisis response and that is how it will be until the programmes are completed. This crisis will hopefully be over very soon. But there will be another crisis one day. That is why the ESM was established as a permanent institution. The role of the IMF has been criticized by some. For example, the European Parliament is calling for a European crisis response in the future. But for some euro member states the IMF presence and its money are important. Also, don't forget: every euro country is a member of the IMF. Therefore it is logical that any European country can ask for IMF money if its gets in trouble. It wouldn't be wise if we categorically ruled out the participation of the IMF in a euro area crisis.