


Klaus Regling in interview with Ta Nea (Greece)

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Interview with Klaus Regling, ESM Managing Director

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Interviewer: Elena Laskari

Ta Nea: Less than a week before the next Eurogroup meeting, how close are we to the final decisions on Greek debt?

Klaus Regling: I think we are very close. There is an important meeting of the Eurogroup in five days and Greece will be an important part of the agenda. We expect that there will be the final assessment of the programme, there could be the decision on the final disbursement under the assumption that all prior actions have been done and there will also be a debate about additional debt relief measures. There is a possibility that the Eurogroup could come to conclusions on additional debt relief on top of the debt relief from which Greece has already benefited over the last few years.

What type of measures are now on the table? Is it only medium-term measures, or both medium and long-term measures?

The Eurogroup on May 2016 decided there will be short-term, possibly-medium term and long-term measures. The short term measures are already implemented by the ESM, they are already helping debt sustainability. The medium-term measures that were outlined in May 2016 are now on the table. And then there is a long-term commitment to help more in the future, if Greece needs additional help. This commitment will remain in place but this is a general commitment to deal with the very long time horizon that we have. Already today, the last repayment to the EFSF and ESM will take place in 2059. That is the situation now. This is a long period of more than 40 years. Necessarily, such a long time horizon means that we are dealing with a very high degree of uncertainty. Therefore, it is very valuable for Greece to have such an additional long-term commitment from the other countries of the euro area that more support could be made available in the future if needed. So, I would not expect that this long-term commitment would be more specified now. And I think that this is also not needed.

So we are not talking about decisions on the long-term measures, we are talking about commitments...

Yes, commitments on the long-term, but on the medium-term measures, possibly decisions.

What is the state of play with the IMF in such a situation?

You should ask the IMF. I think it's increasingly unlikely that the IMF will participate

financially in the programme, but of course the IMF will continue to be engaged in Greece. The IMF is participating in all the meetings. Madame Lagarde is going to participate in the next Eurogroup. Greece as a member of the IMF has regular relationship anyway. That includes views on the debt sustainability, on the economy and on economic policies. So the IMF will remain involved, we will see next week to what degree.

As far as I understand, under those circumstances there could not be a debt sustainability analysis (DSA) that could say that Greek debt is sustainable for the long-term, given that long-term measures are not decided yet.

No. I believe the medium-term measures can be essential to assure debt sustainability. The long-term measures are important to protect Greece against unforeseen developments.

How far will you check the sustainability of the Greek debt?

We will see the situation until 2060, because the last repayment to us is in 2059. We have to cover that entire period. That is long-term, from our perspective. But we have debt relief measures which - if they are adopted by the Eurogroup - have been specified already in the 2016 statement.

Under the short-term measures, does the ESM think that Greek debt is sustainable until 2060?

The short-term measures are already implemented, as I said. The medium-term measures outlined in 2016 serve the purpose of reaching debt sustainability. In order to see to what extent the medium- to long-term measures are implemented, we have to wait for the Eurogroup meeting on Thursday.

Again on the IMF, do you think the Eurozone needs the IMF?

As I said, the IMF won't disappear from Europe. But it may not play the same role it played the last 7 to 8 years. When the euro crisis began, we very much needed the IMF because we needed money from the IMF. The EFSF was new and the ESM could not guarantee the ministers that it could issue €60 billion in bonds, as we did last year. Now we can do that. We have all learned, so the IMF is less needed. But I am not saying that the IMF will not be involved anymore.

My next question is for you as a German and as Managing Director of the ESM: Why do you think that Germany does not consent to a drastic and automatic debt relief? Is there is no need for such measures, or are there political reasons?

I don't think this is a "German question". When you ask for debt relief measures for one country and other countries need to grant that, then those countries who grant debt relief will want to see what is really needed and what the right conditions are. So it is very understandable that there is no automaticity, that reforms should remain in place for the benefit of the Greek economy. If there are no reforms, debt might become unsustainable.

So this is a very logical attitude of all creditor countries and of my institution, the ESM. This is not only a German issue. In addition, the voters in these countries are not very much inclined to provide too much relief. That is why they look to what is really needed. That also implies that automaticity is not the right approach.

You said a couple of days ago that regaining investors trust means continued commitment to reforms. For how long, forever?

Implementing reforms is a permanent task. It is never over. It is true for all countries in the world, for all countries in the European Union and therefore also for Greece. For Greece maybe a little bit more, because of the recent history of the Greek economy ends a difficult adjustment period.

The recent turmoil in Italy has increased the yields of Greek bonds, suspending the plans for new bond issues. Do you think that after August, Greece will be able to meet its financing needs from the market or would there be no need to turn to the markets for some years because of the buffer?

One of the key objectives of the programme was to regain market access. This already happened last year and early this year. So Greece has been able to go back to the market. That is also the experience that we had in other countries like Portugal or Ireland. Well before the end of the programme, countries begin to go back to markets because it would not be healthy to rely on the ESM until the last day of the programme and then from the next month to be financed 100% from the market. It has to be a gradual approach and it has started. Market volatility in the last few weeks has made it more difficult. But volatility is coming down again. Then we are back to what I said before: continued reform implementation will be recognized by the markets because they are looking at that very attentively. That, together with potential additional debt relief and the existence of the cash buffer will lead to a situation where Greece can return successfully to the market in a sustainable way. We should also remember that financing needs will not be very large because of the primary surplus.

Is a precautionary credit line completely off the table?

It is not completely off the table because a precautionary credit line is one of our existing instruments. It is always available for all countries. But I don't think it is needed under the current circumstances for Greece.

There is much debate in Greece about the-day-after the third programme. What happens next, a new type of memorandum, a new multi-annual programme of commitments and rigorous supervision without additional funding? Is that the picture?

That's not the correct picture. Maybe some people are worried about that but there won't be a new memorandum. There will however be - like other countries that have received money from the European institutions – surveillance after the end of the programme. The ESM has

something called the Early Warning System, the European Commission does a post-programme monitoring. Given that the money disbursed to Greece was more than in any other case and given the debt relief already granted and possibly granted additionally next week, the surveillance will be tighter than in other countries. The EFSF and the ESM have so far already disbursed almost €190 billion. There could be more money coming, there will probably be more debt relief, so this requires particular attention to the developments in Greece. But this is not a new memorandum. We will monitor the commitments that are already part of the programme. Some of them were adopted in the Greek parliament on Thursday and they are very important in that context. Post-programme monitoring serves the purpose of checking that old commitments are honoured and also that there is no backtracking on important reforms that are necessary to bring Greece back on a higher growth path.

What if there is backtracking?

I don't expect that after my meetings in Athens with the Prime Minister and the Finance Minister and also the opposition party. I see a broad consensus that there won't be backtracking, so that's not what I expect. But we will come and look at it on a regular basis.

How long will that post-monitoring period last?

The Early Warning System of the ESM will last until all money has been repaid.

Until 2060?

Yes. The Commission stops when 75% has been repaid, but we don't do that. We are monitoring until the very end. We act like any other creditor who would look at the data every six months. That is the normal surveillance.

How about the enhanced surveillance?

The enhanced surveillance that is under discussion requires an assessment every three months and it will be in place for a number of years only. For how many years has not been decided at the moment. We are talking about a number of years.

2-3 years?

A number of years.

Some government officials say that because of a higher than projected primary surplus, there would be no need for the pre-legislated measures, especially the pension cuts next year. What is your opinion?

There is full agreement with the government that agreed measures will be implemented. If there is fiscal space – and that is a real possibility - then there can be a decision how to use this fiscal space. But first the agreed measures should be implemented.

Is the use of fiscal space a decision of the government or in cooperation with the institutions?

Given that we will have this close monitoring, I expect that this will be discussed with the institutions. But we are no longer in a programme. So the government has some decision-making leeway. But we very much hope that this will be used in a way that is useful for growth. I am sure some of it could be used to reduce tax rates ...

Do you think tax rates are high in Greece?

They are high in Greece, compared to other countries. But it was unavoidable to do the fiscal adjustment that was needed. If there is fiscal space, I think that is one of the areas that this fiscal space should be applied.