

## **Jörg Asmussen: Interview in *To Vima***

Interview with Mr Jörg Asmussen, Member of the Executive Board of the European Central Bank, in *To Vima*, conducted by Mr Angelos Athanasopoulos and on 21 August 2013 and published on 24 August 2013.

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***You came in Athens one day after Mr. Schauble made public what we all had in the back of our minds here. Athens has been full of rumors since the beginning of summer that something “big” will take place, like a new bailout program. There is a wider understanding that as soon as Greece reaches a primary surplus, its eurozone partners will examine ways to ease its debt burden. How could this commitment be fulfilled?***

“Let me say first of all that my visit here was planned many months ago when Yannis Stournaras suggested to me that in the calm summer break I should come. So, it has nothing to do with recent comments and there has been no coordination. In my view, these repeated talks about a debt reduction, a haircut or whatever you call it, are not helpful. It distracts the attention of all stakeholders from what needs to be done under the current adjustment program. There is a clear Eurogroup decision, which is public, from the 27th of November last year. This mentioned, as you rightly pointed out, some conditions – and these conditions define the timeframe. When Greece has reached a primary surplus on an annual basis, the programme is fully implemented and the debt level still considered to be too high, then European partners will consider additional measures. But we will only know by spring next year the outcome for the fiscal year 2013. The Eurogroup statement identifies possible measures. It was very carefully drafted. I remember because I was there that night. It says “inter alia” lowering the interest rates for the Greek loan facility again and/or looking at the co-financing of structural funds. These are two obvious ways but there are other ways. Olli Rehn for example mentioned yesterday in a Finnish newspaper lengthening the maturities. These are some options but the timeframe is quite clear”.

***We have the prospect of a new bailout program on the table officially and, if I understand well, Olli Rehn connected it with debt reduction. The last troika report and more specifically the last IMF report is very clear that there is a financing gap for the second half of 2014 and for 2015–2016, approximately 11 billion euros. How possible is a third bailout program and if so, what form could it take? In the details of triggering the OMT program, there is a distinction between a precautionary credit line and an emergency credit line. How could a third bailout program take place?***

“This discussion is also premature. The current program runs until the end of next year. This is more or less one and a half year to go. We have to make this program a success. As regards the future, there is a clear paragraph in the November 2012 Eurogroup statement which I already referred to. It says that the European partners commit to provide assistance to Greece during the life of the program and beyond if Greece has not regained capital market access and implements fully the adjustment program. This is public and it is nothing new. It is true that the debt level of the country will be elevated for years to come and this means that full market access will be challenging. You touched upon two different issues. The first issue is that the country’s budget has a fiscal gap for the years 2015–2016 and the second issue is that we have a financing gap of the existing program in the second half of next year. These two issues have to be dealt with under the current program. Completely separate are the necessary conditions for an OMT program – you must be in a situation in which you are regaining full bond market access and you must have an ESM program, either a fully fledged or a precautionary program and there has to be an appropriate IMF involvement. So, it depends on whether the country is in a situation in which it can have the possibility of regaining full market access”.

***We know that the Greek government is preparing to go to the bond market very carefully. Could this be helpful?***

“Any use of a precautionary line would assume that you can cover as a country all your financing needs from the capital markets. Otherwise, the program is more than precautionary. And one has to assess very carefully when a country can access capital markets. In my personal view, there are at least two preconditions. One is that the country has reached a primary surplus and second that it has returned to positive real growth. Tapping capital markets is a challenge and it will remain a challenge”.

***You have been following the Greek crisis since 2010. Three years later, what would you say about the progress Athens has made in putting its fiscal affairs in order?***

“I am glad that you are asking this question. The program from the beginning consisted of two pillars: the fiscal side and the “growth enhancing” structural reforms side. On the fiscal side, I think we have really seen significant progress. It is a significant progress compared to any other fiscal adjustment after World War II. It was necessary because of the unsustainable fiscal situation and we have to pay respect to the efforts. During my talks I received an update about the fiscal situation after the first seven months and if it continues like this, a primary balance by the end of the year as the program foresees is in reach”.

***The main problems though are centered on the structural side of the program. Even the present Greek government, which has shown a clear commitment, does not seem to have full ownership when it comes to structural reforms. You know very well what happened with the “mobility scheme” in the public sector, you have also seen what is going on with privatizations. How can these shortcomings be overcome?***

“My impression after the talks I had is that there is a clear commitment to the program. And I made it very clear: this is not the program of the troika, it is the program of the Greek authorities. I acknowledge that many things have happened and at the same time more needs to be done. The main issue for the citizens is: do you create growth and jobs? We have reached levels of unemployment which are unacceptable and one should focus on the structural reforms side to increase competitiveness and create jobs, especially for the young. What we see is that wages are decreasing but we are not seeing a similar movement downwards for prices. This is a sign that there is not enough competition in the economy”.

***When you mention this to your interlocutors in Athens, what do they answer?***

“I cannot speak for them but my impression was that they are aware of this problem and are willing to tackle it. If you look at the most recent data, it is in reach to have a moderate but positive growth next year. But one has to show perseverance on this kind of reforms and not unravel what has been achieved”.

***We understand that the next troika review will be extremely difficult. Both Mr. Samaras and Mr. Venizelos are insisting that no new measures, meaning cuts in wages or pensions, are going to be taken although we have heard this many times in the past but in vain. Do you believe that the stability of the Greek government, given the fact that its parliamentary majority is smaller, could be in danger if new measures are needed?***

“It is undisputed that we have a fiscal gap for the years 2015–2016. We have to see how big it will be. Then we have to discuss, as part of the Medium Term Fiscal Strategy (MTFS), how to close it. We need a credible MTFS in order to re-enter capital markets. This is unavoidable. I understand the difficult political situation and the majority situation in the Parliament but as I said one should not unravel what has been achieved – with political pain – up to now. And the question is: what is the credible alternative to this? So I would really focus the efforts on growth enhancing measures because they create jobs. We need to balance between the two pillars of the program”.

***Are you aware of any EU-oriented measures to help enhance growth in Greece because this seems like the only way funds can be poured into the Greek economy? The Greek banks are still not able to lend and from the Greek government we listen mostly wishes. How can we push for growth?***

“First, the program has a number of product market reforms to increase the growth potential, but it takes time to feed into the economy. On the EU side, one can make much more use of structural funds. Currently, they are used only partly, because there is a lack of sustainable projects. Any bilateral help is also welcome. We must undertake a joint effort to reach a critical mass of structural reforms so that investors from inside and outside the country are convinced that we are creating a positive momentum”.

***Even though all banks, especially in Southern Europe, are provided with liquidity they seem unwilling or unable to transmit it to the real economy. In Greece we are facing a suffocating credit crunch. What was your message to the Central Bank Governor and what do you think about the situation of the Greek banking sector?***

“The banking part of the program has been a real success. All four core banks have been recapitalized and thus financial stability has been restored. I do not know what the outcome of the BlackRock exercise will be and the results will be known by the end of the year. There is a buffer in the Bank Stabilization Fund and if a need arises, this is an assurance to financial stability and depositors. You are right that credit provision to the real economy is a concern. In my view, it will help if the work on the Non Performing Loans (NPLs) is accelerated. They are slightly below 30% and if banks have such high NPLs it is difficult to start new lending”.

***A clash is looming in autumn between the Europeans on one side and the IMF on the other, mostly because of the Greek debt sustainability issue. Should the Europeans take the situation completely in their own hands or we need the IMF?***

“In my experience, in all the countries cases that I know, the troika is functioning well and this is especially true here. There are convincing reasons to have the IMF on board. They have a unique knowledge when it comes to program design and implementation. They are not part of European politics, they are like an “external policeman”. There is also a clear request from a number of member states to have the IMF on board. This does not exclude that in the longer term, after the crisis, we have a second look at how we would deal with this kind of situations. Here, one can look e.g at what the role of the ESM could be. But this is not something to change during the crisis”.

***How is the process of the banking union going? The SSM is supposed to become operational some time in 2014. Is the ECB ready?***

“The banking union in all its elements is for us the key project. It is probably the biggest institutional change since the introduction of the single currency. As far as the SSM is concerned, what is lacking is the final decision by the European Parliament. Without it we do not have the legal basis, for example to employ people. I expect the decision will be taken in September this year and then the ECB will assume responsibility a year later, in fall 2014”.

***I suppose you are also expecting a decision on the SRM which is evolving in a kind of battlefield between the Commission and Berlin... Do you agree with the Commission proposal or you think it should be watered down?***

“The SRM is the second key element of the banking union. It would be preferable to have the SRM operational when supervision starts because the ECB can close down a bank only when it knows what happens after that. I think one can generally welcome the Commission proposal”.

***I recently read that, concerning the Bank Resolution and Recovery Directive (BRRD) agreed in the Council, you mentioned that it leaves a wide discretionary “window” to member – states for exclusions from bail-in. Why did you say that?***

“The BRRD is a step forward and a positive development. I was referring to one element which is the pecking order and in my view it is preferable to have a clear ex ante pecking order so that global investors know what the rules of the game in Europe are. The Council decision foresees some flexibility and I would hope that this flexibility would be reduced in the coming trilogue with the European Parliament. I understand why the Council introduced this flexibility because it had to do with different national circumstances but I really would like to stress the need for a European level playing field”.

***You were present during the long nights in Brussels when the “Cyprus issue” was discussed. Now that the bail in doctrine is in place, don’t you believe that this is a danger for the European financial system? Depositors do not feel safe anywhere and this applies in Greece too as you understand. How can you build trust?***

“Let me first be clear and say that the situation of the Cypriot banking sector was and is unique in the whole EU. There is no need to replicate what was done. I think the instruments under the BRRD, including bailing-in, are a step forward because in the past we only had two possible solutions: either you liquidate a bank or you bail it out with taxpayers money. With the bail-in of creditors there will be a third option. But it is important that such rules are known in advance to investors. We are now implementing in Europe a similar framework which exists and functions in the US.

***Is the ECB ready to do “whatever it takes” to save the euro?***

“To be precise, we are ready to do whatever it takes within our mandate. This is what Mario Draghi said and it is important. Yes, we are ready. I mean we are ready to activate OMT when the necessary conditions are fulfilled. And the Governing Council will take an independent decision from a monetary policy perspective”.

***On September 22nd German elections take place. It seems that everything has been in a standstill until then and at the same time may people expect something “big” to happen after them. What should we really expect?***

“I do not share the view that we are in a standstill. We have the SSM, the SRM. The whole project of the banking union is making progress. I am always a bit surprised when people focus so much on the German elections. If one looks on how all decisions regarding Europe passed the German Parliament, there is roughly an 80% stable majority. This is very likely not going to change. On European and international economics policy I would not expect many things to change as a result of these elections”.

***What is, in your view, the most important problem Europe is facing today?***

“There are a number of things. The biggest risk to the positive trend I see is that we are not doing enough – that we are in positive territory, that markets stay calm. So, the biggest risk is complacency and reform fatigue. The second one that worries me is that in this crisis we see national stereotypes resurface. I believed my generation would have overcome this but this is untrue neither in Northern nor in Southern Europe. The third thing is how do we re-develop the European project? Every generation has to redefine what we mean by this. The banking union is the first element, but we also need a fiscal union, a democratically legitimate political union. The fourth is how do we stay competitive in a globalizing world? We have discussed Europe. But we are very much inward looking while the rest of the world is moving. How do we stay competitive in an ageing society?”.