

Interview with El País

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Interviews

ESM

Spain

Klaus Regling Interview with Spanish paper, El País.

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P: Some of the most ambitious ideas of the banking union have disappeared during the making process. Is this banking union enough?

R: The banking union is the most ambitious program that we have in the EU. Some have compared it with the creation of the monetary union. So one should not expect this to happen within a few months, it is technically complex and politically difficult. The first big step has been decided: the ECB as central supervisor for the most important banks in the euro area. In addition there will also have to be a resolution mechanism and a resolution fund, among other elements. Some instruments are important to set up although ideally they won't be needed. Direct recapitalisation of banks, for example: it would be a crisis resolution instrument. A bit like the OMT announced by the ECB: it is available, it reassured the markets but it has not been used.

P: Eurogroup president Jeroen Dijsselbloem recently said that we don't really know how the banks are. Do you expect a sort of day of recognition with the exams from the ECB?

R: Jeroen Dijsselbloem is right and this is why we will do this exercise, the so called balance sheet assessment of banks; however, in some countries we understand the banking system much better than in other countries. Spain is an example because it has been going through a bank restructuring program, and Spanish banks have been scrutinized several times, with a stress test, asset quality reviews, also with the help of outside experts. Something similar has happened in all countries that have

borrowed from the IMF and the ESM/EFSF. The ECB, which is more knowledgeable about this, has said repeatedly that no big surprises are expected in these countries.

P. The problems could come from the Northern countries. And Italy...

R. We will see. It's not useful to speculate.

P: And Spain? We are ending the financial rescue with the blessing of Germany and the EU. But the volume of credit is falling quickly: it's impossible to have a recovery without credit, and it's impossible to have a rise in the credit figures without healthy banks, and it's impossible to have healthy banks without a recovery. Do you share this point?

R: I consider the Spanish case a success story. That does not mean that all the difficulties are over with this programme exit. Spain had a combination of problems: a real estate bubble with too much private debt and a loss of competitiveness. This means there are several adjustments that must take place. But Spain is on a very good way. The Government has introduced reforms and undertaken fiscal consolidation. In the private sector we need to see more deleveraging of banks, companies and households. It is unavoidable, and that is a painful adjustment. You can argue about the speed of the adjustment, but it was necessary. But now indications show that the worst is over. Although the unemployment rate is still unacceptably high, the labour market is stabilizing --also as a result of the reforms--, growth is coming back and all forecasts indicate good news in the coming times.

P: You talk basically about a mountain of private debt, but the adjustment was focused in the public sector. Has it been too much, too quick, in too many countries at the same time?

R: Adjustments have to take place in both areas, public and private. About the speed: in the public sector, I think that the Commission has shown some flexibility with nominal targets as long as the structural effort is maintained. In the banking system it is much more difficult to determine the speed, because many factors aren't under direct control of the governments.

P: The mood in Europe has drastically changed about Spain. But some people don't understand why Spain should exit the program without a precautionary credit line.

R: Precautionary credit lines can be useful, but I think it's not needed in Spain. The market access and market sentiment have improved so much that it seems unnecessary to even consider a precautionary line. The bank restructuring is working well: here, like in the recovery, this is the consequence of all the structural reforms adopted.

P: Now the sentiment indicators are declining again, in the service sector for instance.

R: That may be inside the country, but the mood among investors internationally is really positive. Many analysts in the big banks say that Spain will become a real growth engine in Europe in the medium term. We have seen it in many countries in Asia, in Latin America: they adopted structural reforms in tough times and the benefits are visible a few years later. I expect the same for Spain.

P: These countries asked for IMF programs, and now they detest the IMF. Do you expect the same for the troika?

R: It is true that today the troika is very unpopular in countries under programmes. For me as an economist this is very unfortunate, because the recipes advocated by the troika in Europe now and by the IMF during the Asian and Latin-American crises in the past are the right recipes to create again a sustainable situation. These countries had big problems; otherwise they would not have had to ask for emergency financing. They need to adjust; they must do things that are unpopular and I realise the population is suffering. But the alternative to the programme would have been a much more rapid and painful adjustment without external help. That would have been much more brutal and would have meant much more hardship for everyone.

P: What will be the role of the ESM in Spain after the end of the program?

R: It is quite normal that all creditors that have provided big amounts of financing have a look at the country to know what happens with their money. The IMF does this and we must do the same in Europe. The Commission is starting a monitoring process until 75% of the outstanding European loans are repaid. The ESM has its own process and will monitor Spain until its last claim of the total €41 bn in loans has been repaid. That means we will assess economic and budgetary developments

but there is no new conditionality in any sense. We just need to be sure that the repayments of our loans are foreseen in the budget.

P: Spaniards have the impression that there is a kind of guardianship from European institutions. The letter by Trichet to Zapatero, the MoU and now this monitoring...

R: Spain received a loan from the ESM and on behalf of the euro area Member States including Spain we have to make sure that we get that money back. Apart from that, all members of the monetary union must accept that there is common surveillance. This is also true for those countries that have not received any financial assistance during the crisis; in a monetary union, certain sovereignty is transferred to the European level. All these fiscal rules that have been strengthened in the last three years apply to every country. This loss of sovereignty that came with membership of a monetary union was probably underestimated by many countries. The reinforced rules for every member of the euro area are something that should have happened much earlier.

P: Where are the future risks? Do you see a third bail out in Greece, with some debt haircut? The Greek government shows a new assertive attitude...

R: A lot of progress has been made in Greece; the population has been forced into a lot of adjustment, unavoidable because so much had gone wrong in the past, but it must continue. The Eurogroup has said if Greece sticks to conditionality, then support will be made available if needed. That is the only possible approach. On restructuring: there already was a substantial haircut imposed on private creditors. On the public side, , what we have done in Greece, giving loans at very low interest rates with very long maturities, is the equivalent to a haircut. The interest rates are significantly lower and the maturities are significantly longer than the IMF loans for Greece. And I think that is very helpful for Greece.

P: In Brussels and Berlin the perception may be that there is progress in the programme countries. What about in Athens? Or in the South?

R: I don't frame it like: Germany against the rest of Europe. There are a number of countries that often have similar views, for example the Netherlands, Slovakia, Finland, Austria or Estonia. It is true that the public in these countries is often rather sceptical; I see it when I go to Germany and explain what IMF and ESM are doing.

There is quite often a hostile reception, sometimes it is quite aggressive. Most of the Germans believe that in the end the loans to countries like Greece or Portugal will not be repaid and that the German taxpayer and the other taxpayers on the European countries will have to pay. I am convinced that this is the wrong perception. They overestimate the risks. But that makes it sometimes difficult for the German government to act. But if you look at everything that was done in the past three years to overcome the crisis I think that the German government has acted in a responsible and constructive manner.

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