

Klaus Regling's interview with Handelsblatt

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Interviews

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**Interview with Klaus Regling, ESM Managing Director
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Interviewer: Ruth Berschens

Handelsblatt: Mr Regling, there is a lot of positive news about the Eurozone. The economy is growing, unemployment is declining and even Greece is working itself out of the crisis. Is everything well now in the currency union?

Regling: Indeed, things are going well. The euro crisis is definitely over and the economy is developing better everywhere than expected. Four former crisis countries can finance themselves autonomously on the markets again and Greece should also be able to manage without an ESM assistance programme, provided the government sticks to the agreed reform conditions.

You have the reputation of being an incorrigible optimist ...

I can live well with that because reality has proven me right.

Really? The OECD predicts a meager growth rate of only 1.1% for Greece this year. That is only half of what the European Commission is forecasting. Aren't the Europeans making things look better than they really are?

The Greek gross domestic product declined in the first quarter of this year, and the OECD has taken that into account in its forecast. But the growth trend for the next

decades is more important and the OECD has a much more positive view of that than the European Commission.

Where will that growth come from?

Growth comes automatically when a country is internationally competitive. In this regard, Greece has made tremendous progress and that is reflected in growing exports. For example, since its privatization the port of Piraeus has a container volume that is 10 times that of before. Not only tourism is growing, also agriculture and everything that is linked to ship building, from construction to repair services to logistics.

So Greece will certainly not need a fourth rescue programme?

No, provided the government stays on the reform path.

However, there is still a mountain of debt in Greece, and in other areas the state of public finances doesn't match your optimism either. In France and Italy, debt is rising and there is no change in sight.

That is not entirely right. France's new president Macron is determined to get the deficit quota under the EU threshold of 3%.

His predecessor Francois Hollande also promised this at the start of his mandate. Why should we believe Macron now?

There are two important differences. Macron has already announced his policy of cutting costs in his election campaign that he will do savings. So he has a voter mandate for that. That was not the case with Hollande. Also, Macron has a clear majority in parliament, Hollande did not.

For years Italy has been the last in terms of growth and on top in terms of public debt. Are you afraid that the government in Rome will one day knock on your door and ask for help?

The Italian growth rate has been only half of what it is in the rest of the Eurozone for over two decades. The country now really needs reforms to improve its

competitiveness.

The Commission has been preaching that for years, something that Rome has consistently ignored.

Not entirely. There have been certain reforms on the labour market, but that is not sufficient.

Now, Italy is accumulating more debt in order to fix its banks with billions of state aid. But big creditors are not affected by this. Do you think this is all right?

It is good if weak banks are closed down in Europe and Italy is doing that. However, our bank resolution rules are very complex. For the big banks, the rules of the banking union apply, for the smaller and medium sized banks, national insolvency law applies. It was Germany that insisted at the time that the smaller banks be exempt from the rules of the EU banking union.

Is it a good thing that senior creditors of big banks are liable for losses but not of small banks?

The finance ministers talked about this on Tuesday. Perhaps the EU state aid rules have to adapted to the banking union.

Mr Regling, let's look at your young institution. In 2010 you started in Luxembourg with a staff of 12. How many are you today?

By now we are around 170.

Are you going to grow in the future?

Should we get new tasks we would obviously need also more staff. Otherwise not.

That could happen. The election platform of CDU and CSU states that the ESM should be upgraded to a European Monetary Fund. Did you expect this?

It is a bit surprising that the European Monetary Fund is becoming a topic in the election campaign. But the topic in itself is not new. Finance minister Wolfgang

Schäuble has been talking about this for some time. Also, the European Parliament recommended this already years ago.

What is the ESM lacking in order to be called an EMF?

There are very many different ideas, the discussion on this has just started.

Finance minister Schäuble wants to give the ESM the surveillance of budget policy. Until now this is the Commission's responsibility. Do you want to compete with the Commission?

No, I am against double structures. Should the economic policy surveillance be shifted from the European Commission to us, a change of the EU treaty would be required. I think it is unrealistic that this will happen in the short run.

Eurogroup chairman Dijsselbloem wants to abolish the troika in future rescue operations in crisis countries and replace it with a European Monetary Fund. Is that realistic?

The IMF will no longer be present in case of future crises and neither probably will be the ECB. But we will continue to need the European Commission for specific topics such as the energy or labour market policies. Therefore I think that a European Monetary Fund would do that together with the Commission in the future.

So the troika would become a duo? Would that be possible in the short run?

Yes, because one does not need an EU treaty change for that.

The European Commission has this dream of a European treasury. Could the European Monetary Fund take on this task?

Theoretically yes. However, I don't see how there could be a political consensus in the euro area on this in the foreseeable future. That would mean that the euro countries would issue common debt and would be jointly liable for it. That requires a lot of mutual trust that simply is not there at the moment.

Couldn't the new German-French couple Merkel-Macron build this trust? For example

at the German-French ministerial council this Thursday?

I don't participate in these talks and therefore cannot comment on them. But generally my view is that the chances of success of the German-French cooperation are as good as they have been in over 10 years.

President Macron is asking for a sort of Eurozone budget. Shouldn't Merkel respond favourably?

I cannot give any advice to the chancellor, nor will I. I do however think that we need a limited common fiscal capacity in the euro area, in order to be able to help member states in case of a sudden major crisis.

Will the Eurozone then finally become a transfer union?

No. This is neither about permanent transfers nor about debt mutualisation. It's about a short-term crisis intervention that is limited in time. In the US you already have so-called rainy day funds. US states can draw from them when growth drops after a heavy economic shock. Additionally, the US has a complementary unemployment insurance in case the unemployment figure overshoots a certain threshold.

Couldn't euro countries that are unwilling to reform misuse this in order to let their partners finance their high unemployment?

No. A complementary euro unemployment insurance would only pay in case of a major economic shock, otherwise not.

What would have to be volume of such a financial pot?

A volume corresponding to 1 to 2% of the euro area's gross domestic product would already be sufficient.

That would be €100 to €200 billion. Where should the money come from?

This is how it works in the US: The individual US states finance are providing the financing of the rainy day fund in advance. The complementary unemployment

insurance is financed through a small fraction of existing contribution from employers and employees. So there is no additional financial burden.

President Macron is asking for an economic government of the Eurozone, as did his predecessors Hollande and Sarkozy ...

Mitterrand and Chirac also asked for that ...

Exactly. Do we need this?

The Eurogroup already works like a sort of government.

Is that sufficient?

A permanent chairman for the Eurogroup could be good, especially in order to represent the euro area better in international fora like the G7 or the IMF.

The European Commission has developed another idea for the euro area: It wants to issue bonds of several euro countries in bundles with the alluring name of European Safe Bonds. What do you think of that?

Such so-called safe assets would in principle be a tremendous step forward. We would get a market in Europe that would be as deep and liquid as the market for US government bonds. But that works only if we partially mutualize government debt in the Eurozone and I don't see a realistic possibility for that in the foreseeable future.

The Commission claims that there is no joint liability in its model.

That won't work, because such paper will not get a triple-A rating from the rating agencies without joint liability. As a consequence, they are not a safe asset comparable to US government bonds.

You will lead the ESM until 2022. What will the European monetary union look like then?

Integration will accelerate but the currency union will not have reached its final state. By 2022, we will have finished banking union, the European Monetary Fund

and we will have created a small fiscal capacity for the Eurozone. Also, we will have a permanent chairman of the Eurogroup. But most of the other projects require EU treaty change and I don't expect them in the next 5 years.

Mr Regling, thank you for this interview.

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