

Rolf Strauch in interview with Die Presse (Austria)

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Interviews

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Interview with ESM Chief Economist Rolf Strauch

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Interviewer: Raja Korinek

Die Presse: European politicians such as [Austrian] Finance Minister Hans-Jörg Schelling have come out in favour of a European Monetary Fund, despite the fact that we already have the ESM, the euro crisis fund. What's behind this debate?

Rolf Strauch: At the moment, we're still far from reaching consensus about what such a fund would really look like. But if there is a new crisis, we'd like to be able for Europe to do without financial support from the International Monetary Fund. A European Monetary Fund could in that case also take on more responsibility for the conditionality of the crisis programmes in the euro area.

Would the establishment of a European Monetary Fund be a step towards issuing common eurobonds?

Setting up the fund has nothing to do with eurobonds. The debate is much more about the responsibilities of such a Fund would be in fighting future crises. At the moment, the ESM shares its responsibility for crisis programmes with the European Commission, the ECB, and the IMF.

Klaus Regling, the head of the ESM, a few weeks ago repeated the need to set up a common deposit insurance for banks in the euro area. Some critics fear that this will lead to irresponsible lending by certain banks.

I think that's not justified. Europe now has central banking supervision, with strict, harmonised rules. Through the Single Resolution Mechanism, we have ensured that creditors will share in the cost of a failing bank. A common deposit insurance can only be introduced if the problems of past crises have been dealt with, bad loans in particular. That way we can ensure that there are no one-sided risks. The deposit insurance will primarily protect small savers, as it covers deposits up until €100,000.

But they already are in individual Member States...

Yes, but you also need to look at the efficiency of such solutions. A common insurance is more efficient than having a different system in each country. You can pretty much rule out that all banks in all countries will need the money at the same time. You should look at it like a health insurance. People are not all individually insured, but as a group. And then, this is also an issue where we ultimately want to create the same conditions throughout the Banking Union.

There's been a lot of talk about Italy's debt burden. How serious is the situation?

The Italian economy is very stable, despite all the doomsaying in the past. The country was able to refinance itself in the capital markets throughout the entire crisis. The low yields on its bonds confirm this. Economic growth is accelerating amidst the euro area recovery, and there is a primary surplus on the public budget. It can deal with a rise in interest rates through further consolidation. Italy is the third-largest shareholder of the ESM, and has enabled us to help other countries during the crisis. We continue to trust the stability of the Italian economy. Further reforms to boost growth should allow Italy to lower its debt in a lasting manner.

Finland and Austria are no longer AAA rated since the beginning of the year. France already lost its top rating in 2013. Are you concerned?

These three countries support the creditworthiness of the ESM. It is nothing out of the ordinary that debt and public deficits rise during a heavy economic crisis, and this can cause ratings to drop. The same thing happened in the U.S.A. Ratings are now improving again because of the economic recovery. The Netherlands, for instance, got back its top rating at the end of 2015.

Indebted countries are benefiting from the ECB's current policy of keeping interest

rates at 0%. But in countries like Austria and Germany, inflation is rising quite strongly. How long can this divergence last?

Monetary policy is for the ECB to decide. In my personal view, monetary policy will ultimately normalise. I mean, interest rates can't stay at 0% forever. There will always be growth and inflation divergences within a currency area. You see the same thing between different regions in the U.S.A. At the moment, growth and inflation in euro area countries have again strongly converged. There are several mechanisms to deal with economic divergences. Amongst others, you can act against the threat of an overheating economy. This can be done for instance by reining in bank credit. And setting up a so-called rainy day fund would enable you to put a brake on asymmetric developments. Such a fund could help countries that need support during a recession, on a temporary basis and according to clearly defined rules. This will be done without permanent transfers and without debt mutualisation. There are examples of this in the U.S.A.

At the moment, everybody is talking about Bitcoin, Estonia is even considering introducing its own cryptocurrency. When will the ESM do so?

That's not on the agenda at the moment.

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