

# Transcript of Klaus Regling's interview with Reuters

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Interviews

**Klaus Regling, ESM Managing Director**

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Interviewer: Jan Strupczewski

On how to make EMU more robust

EMU is now much deeper and more robust than before the crisis. Looking ahead, there are different elements, in some we are more advanced than on others, but in general the debate is now starting. There was the Eurogroup discussion last Monday. It started talking about strengthening the role of the ESM. There was no decision and there was no intention to have a decision last Monday, it was just the first time the ministers talked about one important element. They will pick up the other important elements in the next two months in Eurogroup meetings. Dijsselbloem made that public. We will talk about the Banking Union and fiscal capacity in the next meetings and all that will be summarized when Dijsselbloem reports to the Euro Summit in December, where Mr Tusk put EMU deepening on the agenda. Again, nobody expects decisions on that summit. But it will be important because leaders of the 19 countries will be at that summit. No decisions will be taken because very likely there will be no German government in place then. But it will be an important step to bring things together, to give mandates to some groups to start work on certain aspects and then we will see. So it is very difficult at the moment to see what will be the package in the end. That in the beginning different countries have their own national positions that's normal. But I think that we have demonstrated in the last few years that one can bring together different national positions.

There are some remaining important issues and we have a window of opportunity in

the next 12 months. The reason is that there are no other big distracting events like in 2019, when we have the elections to the European Parliament and the selection of the new Commission. 2018 I think is a good year. So it is a process.

On the fiscal side I think I have made it clear often that we don't need additional transfers, we don't need additional investment budgets only for the euro area. We have all those things already, we do have transfers via the EU budget, we do have investment promotion via the EIB, the Juncker plan, the structural funds of the EU budget, so it is not as if we have to invent something completely new here.

Where I do see a need is a macroeconomic stabilisation facility, but that's very different from saying we need everything, everywhere some more public money flowing, so I think that is one element worth looking into. Because in a monetary union, if there is an asymmetric shock, monetary policy cannot help because monetary policy cannot be geared towards one or two members of a monetary union. So therefore fiscal is part of the answer.

Once you reach that step in the analysis, then one can look at what kind of tools are available to have risk sharing across countries and partial unemployment insurance could play a role, it is one of the possible tools. Other tools include a rainy day fund. Both exist in the United States. And the US example shows that they can be done without additional permanent transfers. That's what I propose to discuss in the talks to come in the Eurogroup in the next months.

Can all these tools exist together, or is it either/or?

One has a choice. It is important that we reach first a consensus that we have a gap, and then one can look at the different tools. These are examples. Whether one picks one of them or several, that's less important.

If we had a complementary unemployment insurance scheme, and if a country is hit by an asymmetric shock, logically unemployment goes up more than in the neighbouring country. If there were such a complementary unemployment insurance system like in the United States, the country could draw from a central facility. And that would be fairly automatic because one could predefine some thresholds that would need to be exceeded before a country is eligible. But if it exceeds because it is in a shock, then the money flows basically immediately. And that is a big

advantage of such a proposal.

If the euro zone budget would be 1-2 percent of the GDP of the euro area as a whole and an asymmetric shock hits, by definition only 1-2-3 countries at a time, so for those countries it would be a lot of money.

With the unemployment insurance scheme, a small part of the unemployment contributions that flow into the national system could be redirected to the central fund and be available only when things get bad.

### On a debt restructuring mechanism

Burden sharing can be important to create the right incentives. The last 7-8 years we dealt with these questions very much on an ad-hoc basis, when the crisis started early on, when Ireland had a problem and Irish banks were in trouble. Basically those problems were completely shifted 100 percent onto the Irish budget. There was no burden sharing, no PSI, nothing. Then, later on, we developed the PSI for Greece. It was a long process, very long, which was costly for the Greek economy. And for everybody. Then there was more bail-in in the case of Cyprus and also with some banks in Italy and Spain. So there are these developments, often ad-hoc decisions and to have something more structured, more transparent, more predictable for everybody, I think is good. So that's a good objective.

How to get there? I would be in favour of using more market mechanisms. That would be through strengthening the Collective Action Clauses, which were strengthened in the crisis and since 2013 all sovereign bonds from euro area countries use these stronger CACs, but there are proposals how they could be strengthened further. Basically the idea is to make it easier via the CACs to do a restructuring if necessary. And make sure there are no hold-outs. If we go that way and have a system where an institution brings together both sides, the debtor and the creditors, like it happens in the London club of private creditors, and the ESM could play that role, then maybe we would have a more predictable system. But I would not be in favour of any automaticity, because there is a risk that it could be pro-cyclical: as soon as there is a rumour that a country may go to the ESM, everybody would try to withdraw their money. It could make the crisis worse and be pro-cyclical. I understand the objective behind it, but I think we can reach that objective with a more market-based approach, not with automaticity. Experience

also shows that every case is different and needs a little bit of judgement.

### On safe bonds

There are many people who have commented on this negatively. If we are able to, one day, to create a safe asset in the euro area it would be fantastic. It would really make the monetary union more stable, more robust, if we could have a bond market as broad and deep as the U.S. treasury market, it would be wonderful. So it is a very good objective to have. But that will only happen at the end of a long process, which is also the way Mr. Schäuble put it when he talked about euro bonds. He said they can only happen at the end of a long process where there is mutual trust and fiscal rules are observed and we really have a common understanding.

From the academic side, there are attempts to have safe assets earlier and not at the end of this very long process. I can only applaud these attempts. If we have a safe asset it would be fantastic. But so far it seems to me that these engineering attempts fall short of the objective.

They are too complex and involve financial engineering. Also one rating agency said that the top tranche would not have a AAA rating. If that happens it is not a safe asset. So, so far my conclusion is always that it will only happen at the end of a long process, we need some mutualisation of debt and that will not happen in a long time.

### On ESM cooperation with the Commission

Last Monday in the Eurogroup we almost had a consensus that the ESM should play a stronger role, in particular in the design and monitoring of future conditionality in a future programme (which we do not expect anytime soon, but one day it will happen).

I do not intend to take away any competences of the European Commission, it would not be possible, because they are enshrined in the EU treaty., So it would require changing the EU treaty and I am not recommending that and the ministers are not recommending that.

But there will be some cooperation, so the ESM would play a role, which would go

beyond what we are doing so far to anticipate putting together a programme and I think we are perfectly able to do that in cooperation with the European Commission.

The day after the Eurogroup meeting, I met with Commissioner Pierre Moscovici to define a process to work on that cooperation between the ESM and the Commission.

Could you be involved in regular monitoring of euro zone economies without a programme, a bit like the IMF does with its Art IV consultations?

I don't think it would be an article 4 with a mission that lasts 2 weeks and then writing an 80 page report, but it is correct that if the ESM gets the mandate to be ready at any time on short notice to put together, with the Commission, a programme with conditionality, we would only be able to do that if we do some continuous monitoring. Otherwise one cannot do that job. That is not so revolutionary either because for half of our member states we already do it. We do it for the 5 countries that borrowed from us, together with the Commission, by the way. We also monitor our largest economies. They are sometimes surprised to hear that, but because of our market activities on the funding side and on the investment side, we must understand what is happening in Europe and we only understand what is happening in Europe if we understand what is happening in Germany, France, Italy and Spain. So in half of our countries for different reasons, we have already some monitoring. But not the other half. To monitor the other half, we would need ESM treaty changes. We need an ESM treaty change to become the backstop for the SRF.

When could this happen? Next year?

2018 is a good year.

For ESM treaty change as well?

Yes.

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