Klaus Regling in interview with Süddeutsche Zeitung

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25/06/2018
Interviews

Interview with Klaus Regling, ESM Managing Director
Published in *Süddeutsche Zeitung*, 25 June 2018
Interviewer: Alexander Mühlauer

SZ: Mr Regling, when you started your job rescuing the euro, you said that you would prefer to have nothing to do. It didn't work out that way, did it?

Klaus Regling: Right, it didn't work out that way (laughs). When I started here eight years ago I had no staff and no office. I didn't have a phone, let alone a mail address. The plan was to close the shop down after three years. But then we had more work than we anticipated, all of a sudden.

That sounds pretty relaxed.

Well, the crisis became too strong, it spilled over from Greece to Ireland, Portugal, later Spain and Cyprus. It was a risk for the financial stability of the entire euro area. But it's just a fact that crises happen. And the ESM was the answer to the euro crisis, just as the International Monetary Fund was the answer to the Great Depression of the 1930s. We have copied that idea in Europe.

Now the ESM is supposed to become the European Monetary Fund …

… Let's see what happens at the Euro Summit. I don't mind keeping the same name. But I wouldn't mind either if the ESM was renamed to European Monetary Fund, to show that we are getting additional tasks.

What mandate do you expect from the heads of state and government?

The question is: What is still missing to make monetary union really crisis-resistant. This is especially relevant in the current global order, which is being challenged now that the Americans are withdrawing from multilateral agreements and institutions, and as we are possibly facing an imminent trade war.

What do we need to do?

We should finish what is known as Banking Union. Part of that is a backstop to the Single Resolution Fund. And a European deposit insurance scheme.

Why should German savers be liable for Italian banks?

That is not the issue. What counts is that we create a system that benefits everybody. This deposit insurance would probably not be used a lot.

Why not?

Because the reason for a possible bank run would disappear when savers know that in a crisis, deposits up to € 100.000 are guaranteed not only by their own country but by the entire euro area. If this is the case, why would a saver withdraw his money?

But banks in Italy, Greece and Cyprus are still sitting on a huge pile of non-performing loans. That is a big risk.

That is true. But we are working to reduce that. These legacy risks have to disappear before the deposit insurance is put in place. But Germany should not forget that its banks received more public money during the financial crisis than almost any other European banking system – with the exception of Spain and Ireland. Taxpayers had to shoulder high losses. It is wrong to assume that German banks would never need any money.

“Everybody wants our money” – that’s the narrative that has emerged in Germany since the euro crisis. What do you say to that?

Let me be clear: there is no transfer union. I know that many people think all the other countries want is German money. But so far, that hasn't happened, also not in the context of the ESM rescue loans. And the government is paying attention that this will not happen.

The Netherlands are seeing the Eurozone budget, which was proposed by Berlin and Paris, as a first step towards a transfer union.

The German-French proposal explicitly states there will not be a transfer union. But there are some countries that do want it. Of course, we already have transfers in Europe. Not because of the monetary union, but, since 1957, because of the EU budget. These transfers are deliberate, they are supposed to help convergence of living standards. Germany and France want the euro budget to be part of the EU budget. That clearly means: If there is more money for euro area countries, there is less for non-euro area countries.

Wouldn't that further split the EU into rich euro area countries and poorer countries outside the monetary union?

Not all EU countries outside of monetary union are poor. Just think of Sweden or Denmark. But it remains to be seen whether all EU countries will agree on this proposal.

You are an economist. Can a euro area budget contribute to making the euro less crisis- prone?

Yes, it can be useful. Countries lost two macroeconomic policy instruments with the start of monetary policy: the exchange rate and monetary policy. Most people understand the issue with exchange rates. But as far as monetary policy is concerned, that's harder to understand. One has to realise that the European Central bank can only conduct monetary policy for the euro area as a whole, not for individual countries.

But Germany needs higher interest rates.

In monetary union, there is only one interest rate set by the central bank, just as in the U.S. or in China. Real interest rates – interest rates minus inflation, in other words – tend to be too low in regions and countries that are doing well economically. In Shanghai, real interest rates were always too low in the past 30 years, while they were much too high in outer Mongolia. It’s just a fact that economic cycles develop differently in individual states and regions. If there is a crisis in a country that has its own central bank, such as the UK or Switzerland, that country can react to that. But in a monetary union, this instrument is no longer available for individual countries. There is only fiscal policy.

What could the ESM do?

One possibility to avoid that regions and countries diverge too strongly would be a common complementary insurance for national unemployment insurance schemes. This idea is supported by Finance Minister Olaf Scholz, for example. In the U.S., the concept works well. Each state has its own unemployment insurance system. States can access loans at the Treasury in Washington, D.C., but only in times of crisis. And these loans have to be repaid.

You already convinced Chancellor Angela Merkel of another idea stemming from the U.S.: a rainy day fund at the ESM, which countries could access if they get into a crisis not for any fault of their own. How did you do that?

I already explained that fiscal policy becomes more important in a monetary union because monetary policy is no longer available for individual countries. For example, if there is a hard Brexit, Ireland would suffer, although it has not caused the situation. The country could then, if necessary, get a loan at the ESM that it would repay within five years.

But who decides whether or not it is really the country’s own fault?

That has to be debated. A country may also be able to counter the shock on its own. Germany’s reunification is an example.

So far in the history of monetary union, there could only be an agreement during a crisis. Is there a risk that we miss a chance to reform the currency union now that the economy is doing well?

It is easier in a crisis. There is no sense of urgency at the moment, because things work well.

That could change. Italy’s new government has questioned the euro repeatedly. How worried are you?

We should wait and see what the government really does. You can already see now that the representatives of the Italian government are saying different things than during the election campaign.

What does Italy have to do in order to catch up with Europe?

I remember well that when I started setting up the rescue funds in 2010, many people told me: Italy will be your first client. But that wasn’t true. Italy has never lost market access.
Italy’s real problem is the low growth, which has now been only half as high as the euro average for the past 25 years. That leads to frustration among citizens and explains the election result to a certain extent.

Would the ESM be able to rescue Italy?

I don’t see a crisis on the horizon. But I see that the ESM has an unused credit capacity of around €400 billion. Enough to help even a large country.

Let’s talk about Greece. What makes you so certain that Athens will now manage on its own?

The Greek economy has been completely restructured over the past eight years and during the three adjustment programmes. Since 2016, Greece has posted a small fiscal surplus. I don’t doubt that Greece will be able to return to the market. And Greece will repay our loans. This will take time. But the last repayment of the London debt agreement of 1953 for Germany only happened in 2010. Nobody noticed that at the time – and that is how I imagine it will be with Greece.

What was the biggest mistake in the eight years of the Greece crisis?

Sometimes we took too much time reaching decisions. But then again, we had to develop new instruments. We simply hadn’t imagined there could be a crisis of this magnitude. If decisions had been taken more quickly, a lot of money could have been saved. Also, earlier debt relief would have been better.

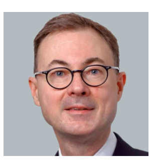
What did you think when Wolfang Schäuble proposed a Grexit?

I was always of the view – and I also told Mr Schäuble this – that Grexit would be the most expensive solution, for Greece and for its creditors. But I also know that you can see this differently. When a country breaches certain limits, it has to draw consequences. So the thought wasn't wrong. But it is good that we were able to keep Greece, but also Ireland and Portugal inside the monetary union, also thanks to the ESM. If we hadn't been there, it is my opinion that Europe would look differently today.

Author

Klaus Regling
Managing Director

Contacts



Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

[Anabela Reis](#)
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu