

Klaus Regling in interview with Die Presse (Austria)

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Interviews

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Interview of ESM Managing Director Klaus Regling with *Die Presse* (Austria)

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Interviewer: Karl Gaulhofer

Die Presse: 10 years have passed since the Lehman bankruptcy. Has Europe drawn the right lessons from the crisis?

Klaus Regling: We had to fight two crises in very quick succession and that is very uncommon. Both are related. The euro crisis was home-made. But it would not have been as bad if we had not had the global financial crisis just before. Globally we have more regulation today; before that, there was too little regulation. The belief that the market is self-regulating was wrong. In Europe, the five crisis countries have done their homework. As a result of their reforms, four of them are in better shape today than most of the other euro area countries. They are success stories. Hopefully, Greece will also become a success story.

What makes you so optimistic? The country still has a debt level of more than 180% of GDP, some ministers of Tsipras's government want to roll back reforms...

Greece needs to continue the reforms. We are a very patient creditor. But we can stop debt relief measures that have been decided for Greece if the adjustment programmes are not continued as agreed. I am optimistic after my most recent conversations with Prime Minister Tsipras. The debt level appears to be frighteningly elevated. But Greece can live with that as the loan maturities are very long and the

interest rates on the loans are much lower than in most other countries.

The new Italian government should be a cause for even more concern for you. Salvini and Di Maio are promising additional expenditure that would let the budget deficit explode.

Both party leaders have also said things in the past days that are quite different: They said that they want to respect the fiscal rules and that the 3% deficit threshold will not be breached. So they don't seem to implement their electoral programmes, certainly not immediately.

Rome can easily be in high spirits. Italy has used the zero-interest rates to extend the maturities of its government bonds. Many say: The ECB has solved the euro crisis, not the rescue funds. But Mr Draghi in Frankfurt has no means to exercise pressure in order to force governments into reasonable economic policies. Is this a danger?

Of course, monetary policy is not tied to conditionality, it is applied symmetrically for all member states. By the way: During the Ecofin it was clear for all finance ministers today that they have to prepare for an increase in interest rates. But the fact that we have been able to overcome the crisis was that a number of measures were combined: the efforts of individual countries, the reinforcement of the banking system, the rescue funds and the unconventional monetary policy measures. None of these elements alone would have brought us out of the crisis. Only this combined strategy has had the effect that the euro area is more robust today than 10 years ago. But it needs to get still more robust.

There are many approaches and ideas. The European deposit insurance scheme in the framework of the banking union is particularly controversial.

It is clear that legacy problems such as non-performing loans will have to be reduced to a large extent before that. But then, we do need this security network because it eliminates the risk of a bank run. In our rescue programmes, we had to use a third of our money for the stabilization of banks, especially because they had lost their deposits. The ESM programmes could have been much smaller if we had had a deposit insurance scheme already eight years ago.

We do have rules for the resolution of banks. They were supposed to make sure that shareholders have to pay and not taxpayers. But in the second application case in Italy, the government came to the rescue again. Is this mechanism stillborn?

Certainly not. But what happened in Northern Italy was at the limits of the rules. What is important is that the legacy problems have been significantly reduced, in Italy and in Spain.

The ESM is supposed to be developed into a European Monetary Fund that negotiates with crisis countries and monitors them. Why not leave that to the IMF with its global experience?

We work closely with the IMF. In four countries this worked well, only in Greece there were occasional issues. But the money of the IMF is not sufficient because of the close financial interlinkages within monetary union. Also, 70 percent of the IMF's shareholders are non-European countries. The Chinese, the Indians or the Brazilians were not happy that the IMF was so involved. They asked: Couldn't the Europeans deal with that on their own. We have to become more independent.

Whether it is the eurozone budget, the strengthening of the ESM or deposit insurance - for critics it always goes into the same direction: towards a transfer union, where the hardworking North is liable and pays for the wasteful South.

People say this less than some time ago. It is just a fact that no taxpayer money at all has been spent for the €280 billion in loans from the rescue programmes. The ESM has a very good rating, it can generate money on the market at low cost and it passes the low interest rates on to the countries that get a loan. Of course, the member states take on risks because they accept liability and because of the high paid-in capital. But they frequently do that for all kinds of things, for example for export guarantees. And we never give out money without conditionality. This way we make sure that there is pressure for reforms.

How strong can the pressure be? The interdependencies are so strong that crisis countries have to be saved...

Regarding Greece, we were minutes away from Grexit in 2015. Also in the other bigger countries, the governments realize that the majority of the population wants to remain in the euro. For that reason, they cannot afford to accept the unpredictable cost that they would face if they fell out of the euro.

Will you remain at the top of a European Monetary Fund or will you leave for a well-earned retirement?

I have no plans to retire, retirement is not good for your health. The staff stays the same and so does the boss. But at least one year will pass until there is an extension of tasks. And we will probably stick to the name ESM in order to avoid any confusion.

One can only hope that you will have little to do...

Of course, that is what we are working on.

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