Rolf Strauch in interview with Tiroler Tageszeitung (Austria)

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Interview with Rolf Strauch, ESM Chief Economist
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***Tiroler Tageszeitung*: Mr Strauch, ten years ago the global financial crisis broke out with the Lehman bankruptcy and also plunged the euro area into a serious crisis. Were we not sufficiently prepared for such an event?**

Rolf Strauch: The crisis has revealed significant structural weaknesses and deficits in the architecture of monetary union and forced us to remedy them. Now we can say in good conscience that we have left the crisis behind us. The growth of the euro area is well above its long-term potential, economic imbalances in the euro area have narrowed and we have the lowest unemployment rate since the onset of the crisis at the end of 2008. The budget deficits of the euro countries have declined and debt is falling. According to the Eurobarometer, 50 percent of respondents see the EU's economic situation as good, and support for the euro is higher than ever: at 74 percent, three quarters of the citizens see the euro as positive, while a short time ago it was just 62 percent.

Experts are already wondering whether another devastating crisis could break out again and what the trigger would be, such as new bubbles in the financial sector or real estate.

The crisis is over, we have a much better environment than in 2008. Therefore, I see no immediate crisis risk. But that does not mean that there are no further risks. The euro member states have used the recovery to a varying degree to create fiscal space. In some cases, there are still high levels of debt of private households and the public sector. In addition, unemployment, especially among young people, is still high in some countries. Banks continue to have bad loans in their books, although significant improvements have already been made here. As in any cycle, the economy will slow down, along with dangers such as protectionism in world trade, Brexit and crises in emerging markets. Therefore, there are good reasons to better prepare the euro area for the future, especially now.

What role in fighting the crisis did the European Stability Mechanism (ESM) play?

The establishment of the EFSF (European Financial Stability Facility) in 2010 and the ESM in 2012, in addition to the reforms in the euro member states and the monetary policy measures of the European Central Bank (ECB), were crucial to overcome the crisis. EFSF and ESM together have a lending capacity of 700 billion euros. And also the paid-in capital of about 81 billion euros of the 19 euro countries is the highest of all international financial institutions. We are the rescue fund for countries that lose market access. Since 2011, € 295 billion in rescue loans have been disbursed to Spain, Portugal, Ireland, Cyprus and Greece, mind you, without taxpayer costs. And it will only pay if the country meets tough reform requirements. We have an excellent rating, which allows us to offer long-term loans with very low interest rates. For Greece, for example, this leads to an annual savings of almost 12 billion euros, or 6.7 percent of Greek economic output last year.

In the case of Greece, many doubt that the huge mountain of debt can ever be removed. Would not a haircut be the more honest version?

No, there has never been and will not be a haircut for ESM loans. We assume that Greece will repay its loans in full, including low interest rates. We do not finance the impossible but the feasible. Greece benefits from very long maturities and a deferral of interest and credit for the coming years. Thanks to the reforms, Greece has now managed to get the economy going again. The success of our approach is also reflected in our other former program countries Ireland, Portugal, Spain and Cyprus. They now have higher growth rates than the EU average, and early repayments both to the International Monetary Fund and in the case of Spain to us.

After the change in government and the announcement that it plans to increase debt, there are many fears that Italy could become the next euro crisis country.

In general, Italy has always had market access, even in the deepest periods of the crisis, unlike other countries. The EU Commission will take a close look at Italian budget policy in mid-October and hold talks with the Italian government. Markets have reacted negatively in recent days to Italy's first announcements on budgets. The Italian government has responded to this situation by reducing the deficit targets for 2020 and 2021.

The ESM, the euro bailout, has done its duty, you could say. How do you see the future of the rescue package?

The ESM has certainly proven itself and has earned the trust of its shareholders, the 19-euro countries. We have built expertise that goes well beyond the financing of loans. We are an efficient fire brigade for possible crises that endanger the stability of the euro area. And nobody would come up with the idea to dissolve a fire brigade just because nothing is burning. The Eurogroup has discussed what new tasks the ESM should have. At the latest, as of 2024, we should become the backstop for bank resolutions. Burdens on taxpayers are not expected. The ESM should also play a stronger role in future crisis programs, designing, negotiating, and monitoring them. Of course, the responsibilities of the EU Commission are fully respected. Also our tool box is being reviewed. Of the six instruments we have, we have only used two so far. Maybe some old ones could be deleted and possibly new ones added.

Will there be new opportunities for the ESM?

The goal of the ESM reform is to make the euro area and our common currency even more crisis-proof. That's all it's about.

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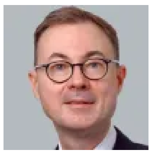

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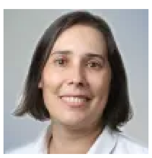

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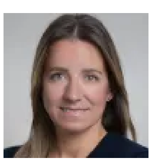

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