Klaus Regling in interview with Les Echos (France)

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Interview with Klaus Regling, ESM Managing Director
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Les Echos: You are participating in all the meetings of the finance ministers of the Eurozone. Are you optimistic about the chances of a global agreement in December that includes Banking Union and the strengthening of the Eurozone?

Klaus Regling: We are working hard on it. There will be a special Eurogroup meeting on 19 November and we have had technical meetings almost every week in Brussels since June. I think an agreement is possible on several topics that are on the ministers' table. It is about completing Banking Union by creating a backstop for the Single Resolution Fund, which allows to protect taxpayers in case of a bank bankruptcy. It is also about launching the discussions on a European Deposit Insurance Scheme. And it is about strengthening the European Stability Mechanism (ESM).

How does the backstop work?

In June, we agreed that the ESM will provide the backstop. Its volume will be the same as the volume of the Single Resolution Fund. This is being built up with bank contributions and it will reach 1% of bank deposits at the end of 2023, in other words €55 to 60 billion. The decision to use this security net in case the resolution fund is insufficient has to be taken very quickly, even if the parliaments of some countries need to be consulted. The governments have reassured us that this decision can be taken over one weekend. One remaining decision is when the backstop will be operational. This will be in 2024 at the latest and it could be earlier. But the ESM Treaty has to be modified for that. Also, there are Member States that are asking for risk reduction before that.

Which additional role will the ESM get?

The ESM will play a more important role in financial crisis management together with the European Commission. At the beginning of the crisis, there was the troika consisting of the Commission, the ECB and the IMF. With the third programme for Greece in 2015, the ESM was added and it became a quartet. In the future, in principle, a tandem composed of the Commission and the ESM will deal with assistance programmes for countries in financial difficulty. The IMF and the ECB will play a less important role than 8 years ago. This change takes place at the request of the Member States and we are organizing our respective roles in order not to impinge on our fields of expertise. The Commission will be the master in budgetary surveillance, in the field of analysis of structural reforms such as labour markets, energy and pensions.

What expertise will the ESM bring to the table?

The ESM brings its knowledge of the markets to the table. Last year we issued €61 billion in bonds. So we bring a value added on debt management, market access and financial stability. We are complementary. If we take the example of Greece, where the ESM holds more than half of the country's debt, in other words more than €200 billion, Member States want to be reassured that they will be repaid in the next decades. Together with the Commission, we are working on that objective in full respect of its prerogatives.

You are also thinking about how the preventive instruments in the ESM toolbox could be simplified.

Yes, we are currently proposing to improve two that have not been used so far. One of them, the Precautionary Conditioned Credit Line (PCCL) is foreseen to grant liquidity to a country that has been hit by an external economic shock but that has sound public finances and that does not have real problems. In the future, this instrument should be easier to activate. For countries with problems, we have the Enhanced Conditions Credit Line (ECCL), which will continue to be linked to conditionality.

Some time ago, automatic debt restructuring was discussed. Is that still on the table?

No, automaticity is no longer on the table. But when a country requests a loan, its debt is the subject of a debt sustainability analysis to see whether it is able to reimburse the loan. The ESM Treaty requires us to do that. The question of automaticity had been on the table a few years ago as some Member States proposed to automatically extend debt maturities in case of an ESM loan. But this option has been discarded.

And has the reform of the collective action clauses been abandoned as well?

This topic is under discussion. There are proposals from the IMF and from the industry to modify these clauses. They were already changed in 2012 in order to facilitate decision-taking on restructuring among the holders of debt. There could be an additional step.

Could you ask an indebted country to restructure its debt today if it wanted to take an ESM loan?

In this case, we would present a debt sustainability analysis to the Eurogroup and it would have to decide. If the debt is not sustainable – a case that does not exist in the Eurozone at the moment – a restructuring would be necessary.

Couldn’t Italy get into this situation if the country could no longer finance itself?

The fact that a country loses market access does not mean that it has to restructure its debt. Look at Ireland, Portugal and Cyrus. They went through a liquidity crisis in the years following 2010. Greece was a different case and in 2012 it became unavoidable to restructure its debt. For Italy, the question is not on the table: Italy has not lost market access.

Bruno Le Maire thinks that the Eurozone is not ready today to withstand a new crisis. What do you think?

We are much better equipped than in 2008, at the moment of the international financial crisis. But we can still improve the system. We have the ESM, Banking Union and most of the Eurozone countries have solved their problems. Because of that, the crisis in Italy has produced very little contagion today.

There is a last step to take to finish Banking Union: the European Deposit Insurance Scheme that Berlin does not want. Will it see the light of the day?

On this point, there is no consensus today. Everybody agrees that such an instrument is useful and will exist one day. But the countries diverge on the conditions that have to be in place before that. They are related to risks in the banking system which, in some cases, still has too many non-performing loans, and the share of sovereign bonds in the banks' balance sheets is high in some countries.

Is the strengthening of the euro zone as Emmanuel Macron is asking for still possible?

I already mentioned the completion of Banking Union and the development of the ESM that are being discussed to strengthen the euro zone. Another question under discussion is the creation of fiscal arrangements for monetary union. Questions linked to the creation of a budgetary capacity for the euro area are not very consensual. Member States are still divided. Certain Member States even refuse the utility of such a fund for the currency union. In any case, I think that a budget for the euro zone can only come in the context of the future multi-annual budget of the European Union that starts in 2021.

Would you say that the finance ministers share today the idea that more solidarity improves the functioning of the Eurozone?

I wouldn't use the expression solidarity. But I am convinced that we have to think of additional budgetary instruments to stabilize the economies. In this large economic space, the economies can develop in different directions and the countries have abandoned other macro-economic policies such as the exchange rate and monetary policy. However, I believe it is less urgent to have additional permanent transfers as there are already transfers in the context of the EU budget. I rather propose a mechanism that stabilizes the economies before small problems become big problems. There are many ideas on the table: the Eurozone budget, the mechanism for investment stabilization proposed by the Commission, the unemployment insurance, the rainy-day fund, shorter term loans from the ESM. Each of these tools has its own justification but they all respond to the same logic. For me as an economist, we could have them all at our disposal and select according to the problem we want to solve.

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