Klaus Regling in interview with Frankfurter Allgemeine Zeitung (Germany)

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Interview with Klaus Regling, ESM Managing Director
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FAZ: Mister Regling, are you the boss of the European Monetary Fund?

Klaus Regling: No. The ESM will not change its name. In Germany, it has become a commonplace to colloquially refer to a monetary fund. But I am happy that we will continue to be called ESM. We have to issue our bonds and the investors know us by now as the ESM. Some of them would have to examine our creditworthiness again if we changed our name. But there is another reason against changing our name: As opposed to the International Monetary Fund (IMF), we don't refinance ourselves via central banks.

But you will get more influence. What is the most important task of the "new" ESM?

If there is a new adjustment programme in a future crisis – which I don't expect in the coming years –, our shareholders, the euro member states, don't want four, but only two institutions to design, negotiate and to monitor that programme: the ESM and the European Commission.

So no more “troika”.

The “troika” has in the recent past become a quartet anyway, because we were part of it, too. When the crisis in Greece broke out in 2010, there was a different division of labour. The ESM’s predecessor, the EFSF, was created to raise money on the market. But the programmes were designed and reviewed by the European Commission, the European Central Bank (ECB) and IMF – hence the word “troika”. This division of labour made sense at that time, because we could not contribute to the substance of the programme reviews. Over time, this has gradually changed. After almost nine years we have gained a maturity that allows us to participate in the discussions on substance. Now the quartet turns into a tandem.

In the future, will the ECB and the IMF no longer be part of it at all?

At least not as prominently. The ECB will continue to play a role in the surveillance of the financial system of a country. The IMF will continue to be part of the monitoring of the euro countries that have by now left their programmes. Whether it will also again be a lender for any euro member state will have to be decided on a case by case basis.

How much additional staff will you need for your new tasks?

We have the clear mandate from the member states to be on a par with the Commission. To reach that goal we would have to increase our staff of currently around 180 employees by about 20 percent, which corresponds to 30 to 40 people. But it should not be more than that.

The Eurogroup also decided that the ESM should become the common backstop to the banking resolution fund (SRF) as of 2024. Do you need additional staff for that task?

Probably only very few. We already have a small banking division, because one of our current tasks is the possible direct recapitalization of an ailing bank. This instrument will now be discontinued, because the resolution fund is taking its place. Our banking division will take care of the backstop. But we will probably need a few more knowledgeable colleagues. Should the SRF one day need money from us in order to resolve a big bank things have to happen rapidly. For that reason, a permanent exchange with the resolution authority and its fund is necessary.

“Backstop” means that the ESM grants loans to the SRF when it needs them. In Germany, the parliament’s approval is required for that. Is that possible, if things have to be done very quickly?

Ideally, a bank resolution happens over a weekend. In some cases, as in the case of Banco Popular in June 2017, it has to happen overnight. The Eurogroup has now decided that the release of loans - which requires the unanimous approval of the state secretaries of the 19 euro states – should happen within 12 hours and that the countries have to lend their approval within this time frame. Things have to be tightly coordinated. In exceptionally difficult cases the ESM’s Managing Director can extend this time frame to 24 hours.

Is this model feasible?

The very thorough parliamentary participation foreseen in Germany goes back to the federal constitutional court. It goes very far in several respects. I am not making a fundamental point. Whenever the ESM grants a loan, the parliament shoulders the risk, so I do not question its right to stay in control. But the Bundestag itself originally wanted to create a special committee based on the template of the control body for the supervision of the secret services. This body would have had few members who would have accompanied our activities intensively. This would have been easier to handle. But we now have to live with the guidance of [the federal court in] Karlsruhe. It is a challenge and I hope we will live up to it. It certainly won’t be easy.

Doesn’t the backstop imply that banks will yet again be saved with taxpayers’ money?

No. The backstop allows for a temporary financing of the resolution fund via the ESM. It will be used only rarely. The comparable instrument in the United States was used exactly twice in 60 years. The resolution fund, which will be financed by the banks, has to repay the loans. If instead the banks would have to pay twice the amount into the SRF in advance, that would come out of their equity. This would have weakened European banks too much compared to their American or Asian competitors.

The plan for a common deposit insurance continues to be very controversial. Are you in favour?

It should not be introduced in a rush. It makes sense to first improve the banks' capital basis and to reduce the amount of non-performing loans. But in principle, a common deposit insurance makes sense. Had it existed during the financial crisis, and the euro debt crisis, the volume of ESM loans could have been reduced by about one third. The argument that German savers would have to guarantee savers in southern European countries is not true, by the way. During the financial crisis, only Spain and Ireland needed more public money to save their banks than Germany.

How big is the worry about Italy at the moment? Will the country become your next client?

I don't see that happening. Of course, currently the Italian government has caused concern among investors and consumers. And the growth expectations for the fourth quarter are very, very weak. But apart from that the situation is not different from 10 years ago. Average growth has always been weak over the past 25 years, about half of euro average. The debt burden has remained relatively constant during this time. It would have been desirable for it to go down. But many experts have analysed the high debt burden in the past years and have concluded that it is sustainable. Italy has never lost market access.

And that cannot change?

Of course, there must not be any policy mistakes. Let's hope that no such mistakes will be made now.

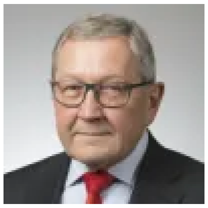
The Italian government is planning for 2019 with a significantly higher deficit than originally agreed with the EU. Now it is hinting at reducing the deficit ratio by two 0.2 percentage points. Is that enough?

The Commission has rightly rejected the budget plan last month and is asking for a substantially modified plan now. What the government has so far hinted at does not seem to meet this requirement, in my view. It is good that there are talks between Rome and Brussels now. It's no use to continuously announce the next crisis.

If one takes the comments of Italian government politicians seriously, they don’t seem to care very much about “Brussels”.

Don’t underestimate the soft pressure the stability and growth pact exercises. The pact doesn’t work perfectly but it works better than people often say, especially those in Germany. The average public deficit in Europe is significantly lower than in America or Japan. With regard to Italy the following is true: all the other 18 countries in the Eurogroup are supporting the Commission.

Author



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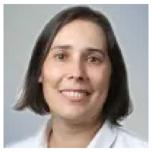

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