Klaus Regling in interview with Die Welt (Germany)

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Interview with Klaus Regling, ESM Managing Director with *Die Welt* (Germany)

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Die Welt: Can you explain what is happening in Europe? The integration of the eurozone and the EU institutions is progressing, at the same time Europe is drifting apart politically: the British are leaving, there are problems with the rule of law in Central Europe, in many countries small but noisy movements for an exit from Europe are forming. How does that fit together?

Klaus Regling: Your examples illustrate the success of the euro area, because none of this is happening in the euro area. There, the institutions are becoming stronger and the approval rate for the euro is higher than ever, at 76 percent. The euro seems to create a sense of belonging that is stronger than in the other EU countries.

But the Berlin-Paris axis, the backbone of the eurozone, also seems to be no longer functioning. The two governments seem to have lost the desire to cooperate.

There have always been philosophical differences between Germany and France about the right economic policy. I experienced this back in the 1990s during the negotiations on the euro and the Stability and Growth Pact. However, we have still managed to bridge these differences and will continue to do so in the future. In the background, at civil servant and ministerial level, cooperation is working as it has in the past.

So you would agree with Kohl, Mitterrand and all the others who predicted that the euro would force Europeans to unite.

Absolutely. The euro is the highest level of integration in the European Union. That creates a completely different awareness and, of course, also certain constraints. Despite this, or perhaps precisely because of it, the euro remains attractive. When monetary union began, there were eleven countries, now there are nineteen. That is rapid growth, and all EU countries that are not yet in the euro will join in the course of the next few years.

The debt crisis in the eurozone has currently ebbed away, but how well is the currency area prepared for the next crisis?

The next crisis in the euro area will come one day. I don't think very soon, but there will be another one and we don't know exactly where it will come from. After all, real crises are characterized by the fact that they come as a surprise. However, we are much more robust in the euro area today than we were ten years ago. Back then, half a dozen countries had budget deficits of more than ten percent of economic output and, in addition, trade and current account deficits of ten to 18 percent of GDP. These economic imbalances have all disappeared.

Nevertheless, many in the business and financial community warn that a huge financial crisis is imminent.

To proclaim an impending financial crisis is panic-mongering and serves above all to sell relevant books or investment products. There will be another crisis, because crises are part and parcel of our market economy system. But at the moment, I don't have any sleepless nights because of it. Five, seven or nine years ago, these crisis prophets repeatedly predicted the end of the euro or hyperinflation. Neither of these things happened.

They are now announcing it for the coming years.

That's a scam, too. When the European Central Bank under Jean-Claude Trichet started buying government bonds, huge losses were predicted at the ECB. In fact, the purchases are now leading to huge profits. When the ESM was founded, huge losses were predicted for the German budget, and these have never happened. All these prophets of doom have been wrong for years and therefore have no credibility.

In the current situation of low and even negative interest rates, savers are being punished, debtors are being rewarded and very basic rules of risk and return are being suspended. It is therefore not surprising that citizens doubt the stability of the financial system.

The fact that savers are currently being punished is frivolously said and written. However, people tend to forget that in recent decades, there have always been phases in which interest rates have been lower than inflation. Real interest rates have therefore been negative time and again in past decades, even when the D-Mark still existed. Now inflation is particularly low and therefore many savers notice directly for the first time that real interest rates can be negative because their assets are shrinking in absolute terms. In the past, these losses were simply not so easy to observe.

And what about the institutions of the eurozone? How resilient is the union if there is a crisis?

In recent years, we have closed major gaps in the architecture of the monetary union with a great deal of work, including late-night sessions. The results include the ESM, the banking union with joint supervision and the agreed bank resolution fund. But of course, there are still gaps. We must complete banking union and implement the rules for banking supervision uniformly everywhere. And we need a common European deposit guarantee.

You raise a sensitive point. At the moment, the differences in deposit protection seem so insurmountable that it is even questionable whether it will come in the foreseeable future.

There is no need to implement deposit protection now or next year. But in the end, we need it for the good functioning of monetary union. If we had had a European deposit guarantee over the past ten years, our rescue programmes in the debt crisis would have been much smaller. Governments have needed a considerable portion of our rescue loans to compensate for the outflows from banks in Greece, Portugal and Ireland, for example.

Is a new crisis necessary for the euro countries to agree on common deposit insurance?

In a crisis, we generally reach agreements more quickly. Nevertheless, I am glad that we do not have a crisis at present. It is not a question of whether it will take two, three or five years until the euro member states agree on a common deposit insurance. Over the past ten years, one often had the impression that negotiations dragged on for a very long time, but then institutional reforms came along quite quickly. Basically, all euro members agree on the need for a common deposit insurance scheme and there is even a roadmap for it, but there are controversies among member states about what conditions need to be met for such a common scheme to be established.

Will Finance Minister Olaf Scholz's proposal speed up the process or will it rather delay it because of all the conditions imposed by Berlin?

Olaf Scholz's proposal for deposit insurance was very beneficial. Because this proposal made it very clear that the Federal Minister of Finance supports deposit insurance. But of course some countries did not like the conditions he listed. But in any case, he has brought the discussion forward.

The euro finance ministers are also discussing simplifying the Stability and Growth Pact.

That is correct. The Stability and Growth Pact has become very complicated and non-transparent in recent years because the euro finance ministers have repeatedly insisted on flexibility and has laid down exception clauses. All in all, there are now so many exceptions to the calculation of public debt and deficits that even experts can hardly see through the rules. This damages credibility. It is therefore important to simplify the Pact. The European Commission has started a consultation process on this topic.

The ESM is also to be reformed and given additional powers. Italy approved the reform of the ESM, which must be unanimously approved by all euro states, in December. How far must the other euro states now approach Italy so that the reform can come after all?

The finance ministers of the eurozone have almost passed the reform of the ESM. Now it is only a matter of some technical details that need to be clarified.

Does this mean that the parties will refrain from simplifying the rules for restructuring government debt? In December, there was concern in Italy that these simplifications, which put certain holders of government bonds in a worse position, could weaken Italy's position in the bond markets.

No, that's as it stands. Now all that remains is for the highest administrative court in France to clarify whether it is compatible with French law for the reformed rules to become part of the ESM Treaty or whether they are outside the Treaty. But this will be clarified soon. I expect the reformed treaty to be adopted by the euro finance ministers in the next few months. Then it must still be ratified by the national parliaments. That should take a year. And I hope that then the extension of our mandate will take effect in 2021.

But for this to happen, the parliaments must give their assent. In Germany, an unusual coalition of AfD and FDP insists that a two-thirds majority in the Bundestag must approve the treaty amendment. If they are right, the treaty could fail in the Bundestag.

I cannot conclusively judge on the constitutional issues, but I do not expect the ESM reform to fail in the Bundestag. Certainly there will be some who will go to the Federal Constitutional Court to have the ESM reform checked for compatibility with the constitution. Some politicians and economists have done this again and again in recent years.

And that doesn't worry you?

No. The Federal Constitutional Court judges have ruled five times in the last few years that the ESM works in conformity with the constitution. I don't believe that the reforms that are now pending at the ESM will change that. On the contrary, the planned new instruments will actually reduce the risks for the federal budget. For example, in the case of bank recapitalisation, the existing instrument of direct bank recapitalisation will be abolished and replaced by the less risky backstop of the Single Resolution Fund. If the risks were greater, I could understand that a special majority is needed for ratification, but that is not the case at all.

Author

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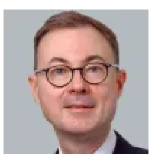

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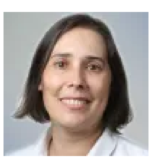

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