

Klaus Regling in interview with Corriere della Sera (Italy)

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Interview with ESM Managing Director Klaus Regling

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Interviewer: Federico Fubini

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Corriere della Sera: The Eurogroup expects the ESM to extend loans to countries affected by Covid-19 on the basis of "standardised terms". What does that mean?

Klaus Regling: The ESM is taking a new approach. We offer an instrument, a credit line to all euro area countries. The fact that it is available to all countries with 'previously agreed standardised terms' - as the Eurogroup has established - is one difference from what happened a decade ago. Back then, the programmes for Greece, Ireland or Portugal had to be very different from each other because the

problems were different. The European institutions had to negotiate detailed conditionality, which differed from country to country. This time it won't be like that.

How does Pandemic Crisis Support stand out today?

Today we are in a different world, we are trying to manage a common shock. Each country is facing the same shock and that's why the Eurogroup made it very clear that there would be standard terms for the loan, not to be negotiated country by country.

With the new ESM loan model we can cover the "direct and indirect" costs of the pandemic, says the Eurogroup. But how to define them?

That's right, the Eurogroup statement says that the only condition is to cover the direct and indirect costs of health care, treatment and prevention. First of all, this means extra doctors and nurses, new hospitals, medical equipment. Then there are also the indirect costs of the epidemic, which go far beyond the mere purchase of materials. What matters is that the countries requesting this credit line can be reimbursed for sums equal to 2% of their gross domestic product (GDP) for these direct and indirect costs.

Some people fear that the conditionality on the loan will work in two stages: at the beginning the ESM only asks to be spent on the costs of the pandemic, then it will start asking for deficit reductions. Is this the case?

I think there's been a misunderstanding. The conditionality agreed at the beginning will not change during the period in which the credit line is available. The Eurogroup makes this clear, saying that the only requirement to get the loan is only in the way you spend that money. Afterwards, all EU Member States remain committed to strengthening their economic fundamentals* according to the European supervisory framework, including its flexibility. This is also in the Eurogroup communiqué. But this is clearly not a condition for lending. Whatever concerns there may have been, they must be put aside.

Would the disbursement be made at once or in tranches?

There may be tranches, but normally the disbursement would be made in one year.

With what repayment deadlines?

This is still being discussed.

The Pandemic Crisis Support is part of a credit line by the ESM mentioned by the European Central Bank in its manuals: if a country activates it, the ECB may decide to intervene by buying the securities of that government in an unlimited way, if necessary. It is the famous shield to defend the most fragile countries. How do you read these rules?

Pandemic Crisis Support is based on our Enhance Conditions Credit Line (ECCL). And you correctly quote the ECB's Outright Monetary Transactions instrument (OMT), considered legitimate by the European Court of Justice and the constitutional courts of several Member States. So it is available. When that instrument was created, the ECB made it clear that a necessary condition for activating it is that a country is in an ESM programme, including an ECCL. It is up to the ECB to decide when to activate it. At the moment, there may not be a need for it, but things may change. Markets are very volatile at this stage.

Do you think that if a government accepts this ESM Pandemic Support loan, it can strengthen its market positions, because investors will start to fear that the ECB will intervene to defend it?

Big investors understand very well how the ECB's OMT works and know that the Pandemic Support by the ESM is a necessary, but not sufficient condition. They would take it into account when looking at the situation.

What do you mean, a necessary but not sufficient condition?

That the decision is only and exclusively of the ECB's Governing Council.

Mr Regling, you know very well that in Italy there is a lot of distrust towards the ESM. Do you realize that the reputation of your institution in our country is tarnished by the way Greece has been managed?

At the time, the problems were not caused by an unexpected shock that affects

everyone, as they are today, but by economic policy errors of the previous decade. The countries that needed the ESM had lost market access and had major macroeconomic problems. Not only Greece, but also Portugal, Ireland and Cyprus. They had budget and foreign trade deficits between 10% and 15% of GDP. The healing of those problems caused the hardship that the population had to endure. But it was inevitable. On the contrary, when the ESM arrived, it made the adjustment easier, because the loans had long maturities and low interest rates, and I think we can see the positive results now. The most important thing is that those countries were able to stay in the euro. But that is history: today we are proposing a completely different instrument.

The European Parliament proposes that all the ESM's €410 billion be spent now, not only the €240 billion made available. What do you think?

The finance ministers of the euro area have the last word, but at the moment it seems fair to me that we should offer €240 billion. It is part of a joint effort agreed by the Eurogroup that is worth up to about €500 billion, or 4% of the GDP of the euro area. We are now in the first phase of the crisis, but we know that there will be a second very important phase, that of recovery, which will be long and costly. By then we will need significant amounts of money and we must start to see how the various institutions can contribute. What the European Investment Bank can do, what the Commission can do with the European budget.

The EU budget with the multi-annual framework 2021-2027 would mean that the first money to be spent, if it goes well, only in more than a year. In the meantime, the euro area's GDP will have already fallen dramatically. Italy, France and Spain are already asking to collect resources from the summer by issuing Eurobonds or coronabonds, what do you think?

First of all, I would like to say that what we have already decided helps the countries that have fewer resources and suffer the most from this crisis. I believe we will need new instruments and perhaps also new institutions to support the recovery phase, but I would like everyone to be aware that it takes some time. If you decide, for example, to issue coronabonds, in whatever form, there will be no money arriving before next year. I know this from my experience in building the ESM and the organism that preceded it, the EFSF.

You say that the Eurogroup has already committed €500 billion. But how much does Europe have to spend to fight this crisis?

It's hard to say at the moment. The IMF forecasts a recession of 7.5% in the euro area, but it also says it could be even worse.

You will have a minimum amount of money on your mind...

I would say that for the second phase we need at least another €500 billion from the European institutions, but it could be more. For that, we need to discuss new instruments with an open mind, but also use the existing institutions, because it is easier. Including in particular the Commission and the EU budget. Rethinking European funds can go a long way in keeping the European Union together.

* The previous version of this sentence was "... all EU Member States remain committed to strengthening their core data". The wording was amended on 20/04/2020 to align with interview text in Italian as published by Corriere della Sera.

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