Klaus Regling in interview with France 24

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Transcript of interview with ESM Managing Director Klaus Regling
France 24
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Interviewer: Catherine Nicholson

France 24: I've got a general economic outlook question for you, the bigger picture. We're looking at a lot of economic damage in Europe. The eurozone is expected to see economic output shrink by more than 7% this year, and unemployment is forecast to rise to 9.5%. Some people say that the shock will be in fact worse than the economic crises of the last decade. How bad do you think it's looking for the European economy right now?

Klaus Regling: I think it's really bad, it's an unprecedented crisis. We have not seen anything like this during our lifetime. I think it can only be compared to the Great Depression in the 1930s, so 90 years ago. In my view, it will be clearly worse than the global financial crisis in 2008-2009. And of course, it’s the pandemic, the medical problems, the health problems, it’s the lockdown. But it’s also so bad because it’s a global phenomenon – that means also our export industry suffers because it’s bad everywhere, also in Asia, North and South America. It’s a simultaneous crisis around the world and that’s why the numbers you mentioned, which are the forecasts of the IMF, of the European Commission, are probably on the optimistic side. Many people think it will be worse than that.

Of course a lot of eyes turn to the recovery, as I said, how to make up for all this money that is currently poured into supporting economies and healthcare systems. Your institution, the European Stability Mechanism (ESM) is already involved in the recovery with the new Pandemic Crisis Support mechanism, activated on 15 May. Just for our viewers, what’s the difference between this and the bailouts that the ESM presided over during the recent financial crises, which were very painful for the countries that took them on, and many would say: punitive.

Let me first say, of course, I said the situation is now very bad, but there is also no doubt there will be a recovery. The question is how quickly and how strong, but there will be a recovery. And that is very much supported by what the European countries do individually. They have put a lot of money on the table with discretionary fiscal action, and fiscal deficits will go up a lot. Then the European institutions come in, and there the ESM is one of three. The other two - the European Commission and the European Investment Bank –are also beefing up their programmes, and we’ll probably get to that a bit later.

So the ESM has to be seen as part of that broader context. It’s the national governments; they are in charge firstly, and then the European institutions complement what is happening at the national level, and that’s very important, because we see already today that some European countries are able to do more than others. Also some European countries are hit by the pandemic more than others, and they do what they can to get over that, but now we are designing the European response, coming from these European institutions, including the ESM, that they can spend money from which the countries that are most affected will benefit more. And that’s important to create a level playing field, to protect the single market, to avoid divergences in the monetary union. So it’s a very well-orchestrated, a very broad approach, and within that broad approach, the ESM is one element, but it's an important one because we are fully functioning and we could come in very quickly. We are ready now; we can disburse money, in particular to countries that are affected.

You are ready now with this money; it would be available, if I'm correct, for funding healthcare costs, direct healthcare costs in countries that are affected, for specific needs, is that right? But no European government has applied yet at the point when we record this interview. There is a stigma, isn't there, attached to the ESM as a bailout fund that brought in this painful austerity in five EU states?

That's what I read and hear all the time, but I think we are beyond that because our approach now is completely different from 10 years ago – for a very good reason. Because 7, 8, 9 years ago, there had to be what we call 'conditionality'. It was unavoidable that our money was linked to policy reforms because the countries that lost market access at the time had in place wrong policies and wrong developments for quite a while. They had lost competitiveness, therefore they had huge trade deficits, very large fiscal deficits. And it was to some extent the result of wrong policies. So those policies had to be corrected; that was the right approach at the time.

Now it's the right approach to be very different, because now no government can be blamed for the problems that we all face, and all of us are hit by this pandemic. So there is no need to correct policies, and therefore the approach from the ESM is rightly completely different from 7, 8 years ago. The markets by the way understand that. They know when a country draws money from the ESM, it's very cheap, basically at zero interest rate. It's very long-term, it's reliable; we will not withdraw capital when there's another little problem, like some investors do. So it's actually good for the country and good for private sector investment. So the stigma I think is a bit outdated with our new approach.

Whatever the case, it is cheap borrowing, lacking this conditionality, as you just said. What would you say, then, to the likes of Spain's prime minister Pedro Sanchez, or Italy's Giuseppe Conte, who so far have been very much against the idea of applying for this ESM funding?

Well, they are not excluding it. They are saying 'we don't need it at the time', which is correct because the countries, unlike 10 years ago, have not lost market access. But it's available; I think it's very good that the euro area, the 19 governments of the euro area, agreed to design this offer from the ESM in a way that it could be made available on very short notice, on very beneficial terms, when it's needed. At the moment, most countries say they don't need it. But it may happen later on, and I'm not worried about it, because then we can keep the money and don't spend it. That's also good because we are in a way a crisis fund, and it's always good to have something in the pocket for times when it gets very difficult. But it's a good offer, and I would expect that one or the other country would draw on it eventually.

That we'll have to see, of course. Now, specifically, the bigger, longer-term recovery for Europe, and the European Commission due to launch its recovery plan within the next few days, although it has been a bit delayed. We recently saw the French and German leaders come together with a joint proposal for giving €500 billion worth of grants to EU member states to help the regions worst hit by the virus; not just ordinary numbers, I should say. This would be rather ground-breaking – joint borrowing by the EU on the international market. It's a very controversial idea; there's been a lot of resistance in your home country, Germany. Do you believe that this Franco-German plan is the right direction to take?

Yes, because this is for the recovery phase. What we talked about already, is for this year, so there is the response at the national level, from the European Investment Bank, from the Commission and ESM, to help right now. And that can also help to bridge the time until the next phase starts, the recovery phase, and the recovery phase will probably last 2-3 years, starting late this year or early next year. So it will be long, and it will be expensive, again. Money will be needed.

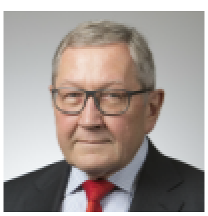
Specifically, on the joint borrowing by the EU on the international market – it hasn't been done before, and it's very controversial for some member states, namely Austria, the Netherlands, Denmark and Sweden. Are you in favour of that particular idea?

Yes, although what you said is just wrong. There has been a lot of joint borrowing; whenever the ESM issues bonds to finance our loans, this is joint borrowing. The same happens from the European Investment Bank. And in smaller numbers, the European Commission has also been doing it for decades. So this is not new at all;

this is often misunderstood. We have at the moment about €800 billion in European bonds circulating in the international market; this is joint borrowing. But now for the recovery phase, it’s in my view a very good approach what was proposed by Germany and France – I am in favour. So the joint borrowing is not really a new thing, but it happens to a much larger extent via the European budget. And this, according to the French-German plan should then lead to grant financing, budgetary financing to countries that are particularly affected.

And that’s different, because when the ESM gives a loan, we issue bonds, but we issue a loan that has to be repaid by the countries. Here the money will be used to finance budgetary transfers, and that is controversial. But I think it is the appropriate concept for this type of crisis, in order to protect the single market and monetary union, so I’m in favour. It’s clear that several countries are against it; I think the majority is in favour, and in Germany, also all the major parties are behind this proposal. But we will start now the process that we always have in Europe, that is not unusual. There are 27 countries in the EU, 19 in the euro area; when there is a new problem, one cannot expect that all the countries share the same view from the beginning. There has to be a dialogue, there has to be a discussion, sometimes controversial, it may take a bit longer. But we have shown again and again over the years that when there is a big problem, we are able to come up with a consensus in the end.

Author



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