

Interview with European Parliament News

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25/09/2013

Interviews

ESM

Alternatives to austerity would be even more painful, warns ESM chief Klaus Regling

Economic growth is slowly returning to Europe thanks to the EU's response to the crisis, yet countries still have much to do to improve their competitiveness, according to Klaus Regling. As the managing director of the European Stability Mechanism, which is tasked with giving financial aid to troubled countries, Mr Regling is one of the best placed people to comment on how the eurozone is doing at the moment. But although he is cautiously optimistic, he warned that the crisis is not over yet.

We interviewed Mr Regling on the occasion of his meeting with the EP's economic and monetary affairs committee on 24 September to discuss eurozone issues.

Credit rating agencies are again considering to downgrade some eurozone countries. Do you see this as an indicator that the debt crisis could become more acute in the next couple of months?

Quite to the contrary. We have recently seen encouraging signs in the euro area. Also, credit rating agencies are not only downgrading: their outlook for Ireland, for example, has improved recently. In the second quarter this year the euro area recorded positive growth after six quarters of negative growth. Unemployment recorded a small decline in most countries under an EFSF or ESM programme. This hard economic data confirms that our crisis response of providing loans to countries under market pressure against strict conditionality is producing results.

But it is important to stress that the crisis is not over yet. The best way for the programme countries to reduce future risks is to stay the course: at national level

the necessary adjustment should be continued. At euro area level all countries should abide by the new rules of enhanced economic policy coordination. And at European level the different components of banking union should be pursued vigorously.

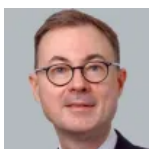
Greece has been in the spotlight for more than three years. Will the country need a third bailout package? What is preventing the country from getting out of the crisis?

It's too soon to say if a third package is needed. What is clear is that Greece is correcting the imbalances that were at the root of its crisis. Given a very difficult starting point, Greece has made a lot of progress. In three years' time the country performed the biggest fiscal adjustment by any country in history and has achieved a primary fiscal surplus. Competitiveness has improved and a full range of structural reforms has been implemented. However it is important to note that the adjustment is still very far from complete.

Citizens have seen their paychecks reduced, social security services diminished, yet recovery is nowhere in sight. Do you think there is an alternative to austerity policies?

I am well aware that the current situation in the countries under a programme is very painful for a large part of the population. Wages and pensions are being cut and many people have lost their jobs. I think it is important to stress that other alternatives would have been unsustainable and even more painful for the population. EFSF and ESM loans give countries without market access temporary cheap funding. The countries need to use this time to make their economies competitive again in order to regain investor confidence. IMF experience in countries like South Korea, Brazil and Turkey show that this strategy works.

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