Rolf Strauch in Macro Hive Conversations podcast

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Interviews
Rolf Strauch

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Bilal Hafeez: Now, onto this episode's guest, Rolf Strauch. Rolf is Chief Economist and Management Board Member of the European Stability Mechanism, the ESM, and the European Financial Stability Facility, EFSF, which he joined in July 2010. These entities provide financial assistance to

your area/countries experiencing financing problems. Rolf represents the ESM and EFSF in European fora and negotiates with member states. Prior to this, Rolf worked at the ECB from 2000 to 2010, and served, previously, as an economist at the Bundesbank.

Now, onto our conversation. Welcome, Rolf. It's great to have you on the podcast show.

Rolf Strauch: Great seeing you. I'm looking forward to the conversation.

Hafeez: Great. Now, Rolf, before we dive into the main topics that I intend to talk about, it'll be good to get some sense about your background, your origin story. What did you study at university? Was it inevitable that you'd end up in the world of economics, and on the policy/institutional side? What was your beginnings?

Strauch: Well, actually, it wasn't clear from the start that I would be doing economics. Although I had a very early interest in institution building, and therefore, I studied first public administration. And then, I think it's a good coincidence of life that, eventually, I ended up with the EFSF and ESM, practically building up an institution, which was just a marvelous, I think, outrageously interesting experience from a professional perspective.

Hafeez: No, that's great. For the benefit of our listeners, it'll be good to just get some definitions out the way. EFSF and ESM, can you talk about what they are? Maybe start with EFSF, when that was launched and what it did. What the ESM does, and what it stands for?

Strauch: Yes. Our institutions, the EFSF, the European Financial Stability Facility, and the ESM, the European Stability Mechanism, are both, if you wish, children of the past crisis, obviously. They were created in the past crisis, and they were mainly created to preserve the financial stability of the euro area and its member states. That is effectively what we did. In the past crisis, we gave financial assistance to five countries — that is Ireland, Portugal, Spain, Cyprus, and Greece, importantly, because they had macroeconomic imbalances, macroeconomic weaknesses, and they were at the risk or actually had lost market access at affordable prices. They needed our support in order to overcome those weaknesses and actually regain market access, and that is what we did. So, we had those programs with these countries that actually provide, on the one hand, financing at rather affordable rates and at partly, very long maturities, in order to create actually financing space for them and gain the time to adjust the economy. At the same time, we have policy conditionality. Requiring policy reforms that essentially address the weaknesses and put the countries back on a growth path. That is really also what we see that eventually happened. These were partly difficult adjustment processes, but they were successful, and eventually, bringing those countries on a growth path where growth was higher than for other euro area countries. Also, those countries managed to regain market access. From that perspective, I think we can say, rightfully, that the mechanism as such worked and lived up to the expectations. I think there's also broader point here. With the past crisis, there was the risk that the euro area would actually break apart and some countries would drop off. We helped in preventing this. If you look today at the euro area, confidence in the euro is higher today than it was over the past 20 years. There are more countries that actually want to enter the euro area. I think, actually, in that picture, the ESM plays a role by being, so to speak, the crisis resolution mechanism that is there to safeguard financial stability.

Hafeez: You're right. I mean, certainly during the euro crisis, there were so many people who were predicting or forecasting a breakup of the euro zone. At times, it did feel like we were close to the precipice, and you're right, a decade on, things are relatively stable on that side. Now, you did talk about the countries that took facilities from either the EFSF, or the ESM, and their growth path subsequently. I can see how countries like Ireland, Spain, even Portugal, had done relatively well using the programs, but Greece probably stands out as a country that did experience quite a severe growth slow down. I mean, if you look at the numbers, it almost looks like a depression. How do you square that in terms of metrics of success, of using the program?

Strauch: It is absolutely clear that the Greek case was a particularly difficult case, in terms of adjustment. The amount of adjustment that was necessary for, so to speak, bringing the country back and overcoming imbalances was really bigger than in the other countries. That was also felt by the severity of the crisis and the policies that had to be put in place. Now, that is true, but again, my take is, I cannot claim that everything was perfect that we did. We actually looked deeply into the exercise. We have two evaluation reports, one specifically on Greece, and it says there could have been improvements on timing of reforms, there could have been improvements on the composition of reforms, but the overall direction is right. My way of looking at it: If you look, for example, at the past crisis now, if you look at the pandemic, and if you look how Greece could react to the pandemic, that they actually entered the situation with a surplus situation, the famous ‘Black Zero’. That they entered the pandemic with a functioning securities market for non-performing loans, where the banks were able to offload non-performing loans during the year 2020, where the economy was really very hard pressed. The banking system was much better capitalised. These are all effects of the program. From that perspective, yes, it was a very harsh and very difficult adjustment process. Costs were high. Also, social costs were high, but in the end, it was an adjustment process that really brought the country forward and really, also, gave the country a great deal of resilience for the crisis that we have experienced now. So, in that regard, I still would claim that it is successful.

Hafeez: One of the things, in the past at least, there was this stigma of using the facilities of, say, the ESM, or the EFSF before that. Do you feel there still is a stigma attached to using those facilities?

Strauch: I think, in answering this situation, or in answering to your question, it’s good to look at the current situation, and also put it into the context of the European reaction to NextGenerationEU. With the pandemic, there was a very fast reaction at European level. I think that reaction was largely also driven by solidarity. European policy makers decided very rapidly on the first package and ESM facility. The pandemic support facility was part of this, which was meant to support countries in financing health-related expenditures. There was no major conditionality attached to this, because that was not appropriate for the moment. Then, there was also a facility by the European Commission to support workers, and another facility by the EIB to support enterprises. Solidarity was also there in a sense that these facilities were meant to help, particularly, those countries that were more affected by the pandemic. And then, shortly thereafter, in July, policy makers already decided on the second facility, the NextGenerationEU, which is, so to speak, the big recovery package that now is put in place. Again, the consideration here was some solidarity, because more money goes to those countries that are more affected by the pandemic. ESM is part of this. I think putting in place our facility helped, because it gave credit to the market confidence that prevailed at the time, and that we still see prevailing. Europe is having, if you wish, to put it like this, a good image in the market also, because there was this common reaction that could be forged. So far, no country has drawn on our facility, because there was no real need. Financing costs are still low. Also, on the back of monetary policy. But, I have to admit also because of the political costs attached to tapping the ESM. I don't think, really, that it is the point of conditionality, because there was no macro conditionality, but there are decision making processes there, and there is maybe some political stigma indeed left. There is something that also the IMF has experienced for quite a long time. For us, the point is: We know that the facility was helpful, because it gave market confidence. We know that member states can tap on it if there is really financing constraint, and that is what matters and what is important. As long as the situation is as it is, it's certainly good, from our perspective, and fine, but we have to work in the long run also on this political question.

Hafeez: That is true. That, even if the facility wasn't used, the knowledge that it's there in worst-case scenarios would assure the market. You mentioned the IMF. What's the relationship between the IMF and the ESM? How do they intersect with each other? Now, of course, with Greece, there was a joint program, I guess, but is there a formal relationship between the two and how the responsibility is divided?

Strauch: At this stage, I think I would basically describe it as a collegial relationship, in the sense that we are both part of the Global Financial Safety Net. The Global Financial Safety has the IMF at the top, and the Global Financial Safety Net has a number of regional financing arrangements, including ourself, but also Asian, Latin-American, near-East counterparts. Together, the regional financing arrangements have the amount of lending capacity that also the IMF has. From their perspective, it's really important, also for us, to work together, because when big crisis emerge, it's good to have that cooperation and have it established. The other thing is for the current situation in forward looking. At the same time, obviously, it's clear that the IMF in the past crisis had also very pervading role, because Europe was not prepared for it. You needed, certainly, the expertise of the IMF, but at that stage, also the resources of the IMF.

Now, we have moved on. Europe has built up resources. Both in terms of expertise, in terms of financing, with the creation also of the EFSF and the ESM. The team here, also, is working hard to further build up on that expertise. I think the relationship has changed, and we can play a different role. Actually, thinking about that, what you can see is that currently the ratification of ESM treaty is underway. It is expected to be concluded by the end of this year. Under this new ESM treaty, ESM will have a stronger role, and it makes us, so to speak, fit for the future in the views of our member states. It adds two important points. One important point is that we will be the common backstop to the Single Resolution Fund, which means we will be better able to back banks when they are in trouble, when they have to be resolved and the means that are available with the resolution board are not sufficient.

We do that without burdening taxpayers. The other point is that we will have a broader mandate in taking care of policy programs. Here, it becomes apparent also that forward-looking, policy conditionality will be designed/subscribed by the European Commission and the ESM. In the past, many people may remember there was the troika with the IMF. So here, the design has changed, forward-looking, in recognising also the difference in role, and also in recognising the role that the ESM should have in it.

Hafeez: You mentioned the troika. That's a blast from the past. I remember those dark days of the crisis, when all we were talking about were the troika, so it's good that we've moved on from that. You did mention the European response to the pandemic, so it may be good if we contextualise that. I mean, how did you see the European response to the pandemic in 2020, both within history of Europe, and also contextually, versus say the U.S response, which had a slightly different type of fiscal response?

Strauch: I think it's fair to say that, on both sides of the Atlantic, the response to the pandemic was massive. On the European side, I said before, they're very early on European initiatives that came in. But actually, even somewhat before and in parallel, there was obviously the reaction of member states in putting in place support programs and there was the reaction of the European Central Bank and the supervisors in May, allowing banks to lend over the crisis and providing liquidity. It's actually that package that we can now confirm that really helped. The key difference between U.S and Europe is that, in Europe, the response and measures that were generally taken were more focused on supporting companies and supporting employment. Keeping workers on the job, as compared to more broadly income support that was provided in the U.S. There is, I think, no right and wrong in any of those.

Even though there was a lot of debate among economists, what is better and how you should do it, but we should also recognise for Europe, given our structure of our economies and the way our labour market work, it is important to keep labour on the job, workers on the job, and to avoid the frictions, as the economists call it, that emerge from unemployment. I think, actually, if you look at the current situation and the current recovery, this is really playing off rather well and is strengthening the recovery, as we see it, in order to avoid that you have massive reshuffling in the market. So, companies are in place. They could address the liquidity problems of the past. The workers are in place, so time for production can be scaled up. Companies can react, and from their perspective, we can move on. In this regard, I think, actually that the European crisis response that we have provided so far was quite successful in taming the impact of the pandemic.

Obviously, now, it is important to also work on the recovery, and make sure that this is a recovery that is not only building back but building something new. Here, again, it's important to notice that this vision of the NextGenerationEU came really early. I think, Europe was the first region, global region, that really formulated a vision of how you want to do the recovery. That it is, basically, also a transformation of the economy towards a green or more digital economy, and not just the building back. On this is what we are currently working very forcefully with the implementation of the NextGenerationEU.

Hafeez: Actually, just before we go into the NextGenerationEU, one of the debates around the so-called furlough schemes in Europe, where there was support programs for companies to retain their employees, is that it could reduce the restructuring of an economy after the pandemic. Because, obviously, there's been possibly some structural changes after to the pandemic. I mean, we just don't know. Maybe more things will be digital, and so on. And so, if companies are structurally frozen too long, then they can't adjust too quickly, whereas the U.S hasn't done that. I mean, the downside of the U.S approach, and we've seen this over the last 12 months, is that people's income actually went up during the pandemic, which led to a huge consumption binge. Which, from a long-term perspective, is unclear whether that's helpful or not — to have that huge consumption binge, and then the unwind afterwards. It'd be good to get your thoughts on this issue.

Strauch: The restructuring of the economies and the adjustment forward-looking is certainly a big challenge, and it's something that Europe still has to address. I still think that it was absolutely right for the pandemic period, immediate pandemic period, to actually support companies and support workers to stay in the job. What we are seeing now, partly, in the U.S is a shortage of labour supply, and it’s exactly those frictions in the labour market and matching, again, demand for labour, and actually workers coming in to play out. In Europe, I think this possible mismatch and the cost of that could have been even higher. By keeping workers on the job, we prevent that situation and allow for fast recovery. But, that does not mean that, forward-looking, we don’t have to face a situation where economies turn out to be different, because some sectors will not go back to old performance, because we want to be greener, because digitalisation has advanced and some services may not be demanded as more as they were before. This is a transformation that still is spending also in Europe, and we have to manage this. Governments are working on it. There are programs put in place. More needs to happen in terms of training, no doubt about that, but again, I think with also a common initiative in terms of NextGenerationEU in helping countries to manage this transformation, we have at least created a very good starting point for, now, policy measures to follow up, for investment to go in the right direction and manage that transformation.

Hafeez: On the NextGenerationEU, the numbers are quite large, 750 billion euros. But one of the other debates going on is, what’s the benefit of the credit guarantees versus net new spend of newly issued money. Around half, I think, is credit guarantees, and the other half is new spend, so to speak. And so, from a stimulus perspective, you get a bigger bang for the buck with the new issuance, with the new spend, rather than the credit guarantees. And so, the numbers suddenly end up looking smaller than the headline number would suggest. What’s your thinking around the value of the credit guarantees?

Strauch: The total package that was decided was €750 billion. Of that, you have the Recovery Fund that was about €700 billion. And then, half of it goes as grants and the other parts as loan, so very roughly speaking. Now, that means that the grants are actually having direct transfers, if you wish, to the country that create policy space without also burdening, otherwise, the balance sheet of member states. That is the financial support, and there were clear guidelines also given out for this to be directed towards digitalisation and green investment as a share of the overall investment package that could be financed with that money. Equally important, from my perspective, or maybe even more important, is the fact that the disbursements of that money will also take place in the context of the recovery programs, and those recovery programs entail policy reforms.

For the countries that we have to deal with, I can say that those policy reforms, and the programs, are actually pretty solid and far reaching. Addressing really, also, structural elements in the financial market or in public administration, where you need to want to have efficiency gains. The true growth effect, in my perspective, doesn’t come only from the investment and the productivity gains there, but rather also from the policy reforms, which should, hopefully — that is the challenge, but also the objective — put the countries on the more sustainable long-term growth path and a higher long-term growth path. That is how I would look at those packages.

Hafeez: I mean, can you give a few examples so that we have some sense of how far reaching they could possibly be?

Strauch: I mean, what is well known is that in looking at Spain. I mean, part of that package is to look at labour market reforms, wage setting. If we look at Cyprus, we see that part of the package is making insolvency framework work better. If we look at Greece, it is the efficiency of the public administration, partly through digitalisation or through other processes. These gives you just a flavour of what it is.

Hafeez: I’m not sure if you can call it a side effect or primary benefit of the Next-gen EU. Well, we have euro denominated bond. The common bonds, you could say. The liquidity, and the size, of these common EU or euro-type bonds are getting larger and larger and larger. Certainly, when I speak to investors around the world and sovereign wealth managers, they’re finding it very attractive to be able to have a euro-denominated applied instrument. What’s your perspective? Is the size of the market going to continue to grow? Is the NextGenerationEU just the first many such programs? And then, that follows on to the whole question of fiscal union as well, so we contextualise that all.

Strauch: From my perspective, the NextGenerationEU, and the fact that it can be financed through EU bond issuance, is obviously a big progress also for European bond market. We had, before, already €800 billion of European debt outstanding issued by the ESM, by the EIB, by the European Commission, but given also the number that I mentioned before on the package, that obviously now is increasing significantly to way above one trillion. More importantly, now at this stage, the European Union as an issuer actually gets the size of a sovereign. So, it has a very clear and market impact. Not only that, but also it’s, at the same time, becoming by far the biggest issuer in the green bond space, so it's actually opening up a new market in that regard. I think these are all important developments that we see at this stage, which also can explain why it is so well perceived in the market and actually quite a lot of demand for it.

The NextGenerationEU will go for long, so the repayment phase is up to 2058. Those bonds will be in the market for a long time; they will have to be rolled over. This will remain significant, but at the same time, it's also very clear that, at this stage, the program is temporary. Disbursements can take place till 2026 and demands can be put forward till 2023. There is no plan of extension at this stage, that has to be clearly recognised, and this was an important of the political agreement at the time. We can speculate whether this, at a later stage, may change. Member states may see different needs and different options, but that is, at this stage, a political speculation for which there is basically not much foundation. I think, nonetheless, it is a significant step. Member states also agreed to give more resources to the commission in order to finance those funds.

There is a discussion to be held on giving more resources to the European Commission through environmental taxes, among others. That will be decided so that resource envelope is actually broadened. Again, a very significant step and, I think, a good step that will support European bond markets. That puts forward more safe assets in the market, but still far away, in my view, from fiscal federal system as we know it from the U.S. We also know that, in the U.S, it has taken very long. I think historically, looking back, the key element of fiscal federalism is the transfer of tax power. It's not the ability to issue debt, but the transfer of tax power. That has now happened to some extent, but to a very small extent by comparison to the U.S for Europe, so I think there is still a long way to go to talk about anything that would be similar to a fiscal federalism as we know it from the U.S, or from Canada or other countries.

Hafeez: In terms of the other unions that Europe talks about, the banking union, for example, how far are we to banking union? Are we at the stage where we could start to see more cross-border mergers between banks? At this stage, it still seems like we're in this world where there's lots of national champions. There's a big reluctance for cross-border M&A. Where are we on banking union?

Strauch: Yeah. It’s important to recognise that we have made great progress on banking union. What we are currently discussing is not the creation of banking union, but it’s the completion. It’s putting in place the final piece, right? So, it is clear that part of the strengthening that has actually happened after the past crisis is the creation of a single supervisor, the creation of a Single Resolution Board. We have gone a very far way already in implementing this, putting it in place, and actually making all the structures safer. Now, the question is, what is still to be done in order to make banking union safe and to really work towards a fully integrated banking market? Here, this is for me a key point. This fully integrated banking market. Now, one of the elements that is still missing is the backbone. The financial backbone in terms of insurance/reassurance.

We have done another step here by, as I said before, creating the ESM common backstop. This is one of the backbones. We can back system when there is a problem in the banking sector, when a bank has to be resolved. Then, a Single Resolution Board, a Single Resolution Fund, at the European level can get a credit line from us in order to cover costs. The other element that is still missing is a Common Deposit Insurance Scheme. The idea here is that, indeed, you create a level playing field. You remove that burden also from member states without putting it on taxpayers, because also a Common Deposit Insurance Scheme would be covered by the banks. There are discussions going on there; it’s not an easy goal. It is also clear that it has to be done as a bigger package, where you not only have a Common Deposit Insurance Scheme, but also you allow banks to move more capital and liquidity across the area to become more integrated.

That is, for me, indeed, the way to go. I mean, you said it before. It looks that this creation of national champions is not the way forward, and I would agree with this. We need to have an integrated banking sector, where indeed banks can move and work across national boundaries in order to have the sufficient size in order to do the optimal choices of allocating their equity and liquidity, and serve the area. That will actually strengthen, what we call as economists, private risk sharing. That’s the compliment to the public risk sharing. The flip side of the fact that we do not have a fully federal system is that we should have sufficient private risk sharing across the economy in order to be more resilient. That is also why, I think, making this final step towards banking union is so important.

Hafeez: And the other side of the private risk sharings of the capital market side. When we look at the U.S, the U.S dominates by capital

markets over, say, bank lending, whereas Europe is the other way around, where bank lending tend to dominate in terms of provision of credit to companies to the corporate sector. One thing that's held the capital markets back in Europe is, again, its national markets. And so, you don't get the benefits of that very large, deep capital market. There is Capital Markets Union, but out all the different unions that Europe talks about, it seems to be the one that's moved along the slowest. What are your thoughts on this?

Strauch: Though I fully agree that this is a necessary step for Europe, we should have more integration there. Also, with the view to Brexit, because UK having left the European market, so that actually enforces the need to have this integrated European market. There is progress being made, but we should also be clear that Capital Market Union is not this one single big project. It's a couple of smaller projects, regulations, that move forward, and there is actual progress made on those that may be less visible. But, in terms of bigger picture, I think, with the Capital Market Union, we should have a couple of game changers there. I mean, we have pinpointed as five game changers in terms of having more securitisation, having better supervision, having more safe assets, having more SME (Small and medium-sized enterprises) financing, so that actually would help to make markets work better. These are partly long-term processes.

For example, when you think about equity finance, it also takes a lot of financial education in order to broaden the equity market, and also keep it open not only for institutional investors, but also have more involvement of retail investors. It takes creation of demand through, say, opening up certain markets to insurance companies, so there are different elements that need to fall in place there that take a bit of time, but I agree, it's important to push this agenda forward and to need to have sufficient ambition in achieving those different pieces that I mentioned before. Here, I must also say that, in some areas, we agree that it would be good to have more ambition than is currently visible, but we will move forward on it. I do think that with the challenges ahead, in terms of refinancing the economy, there will be also political bill to go along.

Hafeez: This is perhaps a difficult question to answer, but why do you think Europe, or continent of Europe, tends to be just less involved in equity markets? If you look at the U.S, there's a strong equity culture. People look at their 401Ks, their pensions. They allocate to equities,

whereas Europe is much more of a fixed-income mindset. It may be to do demographics as well; it's an older population. And then, also, the U.S has the venture capital space, and lots of innovation, which again, goes back to this equity mindset, whereas Europe tends to have more of a fixed-income mindset. I mean, do you have any ideas on why Europe doesn't have as much of this equity mindset?

Strauch: I don't have a complete answer to that, I must admit. I think it's partly cultural, partly institutional. Certainly, having a certain tradition as a role, but at the same time, the fact that you have broader public pension schemes in Europe than you have in the U.S is also very important. If you look at a country like Sweden, or the Netherlands or Denmark, where you have more funded pension systems, they're also the engagement of everyone, of the population in financial markets, more broadly. The understanding is bigger than in other countries. I think this is a very important institutional feature, and if you want to go in Europe in that direction and really broaden up the financial market, then this is the avenue to go actually. We have to broaden, really. Speak the use case for the man on the street, for everyone, in order to engage more. Other elements are participation in your company's equity, so these work equity schemes that are sometimes mentioned. These are all features that I think would have to be institutionally supported in order to get a very broad engagement.

Hafeez: You mentioned Brexit earlier, and its impact on institutions. I mean, more broadly, what has been the impact of Brexit on European institutions? The obvious one is, as you say, capital markets. London is one of the largest financial centres in the world. How have you seen the impact so far? It's obviously early days, and going forward, what does Brexit mean for European institutions?

Strauch: Let me first say on this that I find Brexit, obviously, regrettable. From both sides, there is no winner in this, obviously. Therefore, also the need to manage it, and keep on managing it as productive as possible is an important point. Now, you asked for the impact on European institutions, per se. There is the political dimension; there's a financial dimension. Politically, obviously. It changed not to have the British voice anymore at the table, and that has, obviously, also an impact on the, if you wish, gravity of the countries being outside the euro area or inside the euro area. It may play different roles in different policy discussions. The other point is financially, actually.

For the European situations, I think the overall impact is relatively limited. We, as ESM, have taken care of Brexit, but the UK was no member of the ESM. It was a member of European institutions. Others, like the European Commission, the EIB (European Investment Bank). There have been special arrangements in order to safeguard the respective positions. That has been dealt with, but for example, none of the other European institutions for that reason changed the rating. So, I think financially the impact on the European institutions, per se, has been limited and properly dealt with.

Hafeez: More generally, the euro area, we talked about these various packages. I mean, do you have a view on the European growth outlook for the next few years or so? One big question everybody has is, after the global financial crisis, we had a very slow recovery. And obviously, Europe got additionally hit by a sovereign crisis, but even the U.S, it was remarkably slow. We've had this COVID shock. We've had an initial sharp recovery, but that's because everything went to zero and we've bounced back up. Now, we're at a phase now to see what the true recovery is. What's your sense on how things will pan out?

Strauch: I can reiterate what I said before. A lot of policy initiatives went right, and this is part of the answer, why we are seeing the bouncing back of the economy. One has to keep in mind, also, that this is an unprecedented experience. We have never had, in this modern economic setting, a pandemic experience. We did not know how bouncing back would look like economically, but obviously, a lot even then could have gone wrong, and the policy measures helped a lot. Just to recap, briefly, the feeling that I got also with the IMF (International Monetary Fund) meeting. I mean, when you look at the world, Europe was the only region, or is the only region, that was where the growth outlook was not revised downward compared to the July outlook. Europe actually, in the discussions, appeared relatively strong compared to other regions where you see way more concerns. From that perspective, I also think it's fair to say we got out of this indeed relatively strong, on the back of the policy measures, and that gives us a good starting position for really engineering the recovery, or continuing on the recovery phase, as I said before.

That doesn't mean that there are no risks, and I guess many in the audience also know about it and deal with it every day. There's the question on the outlook in other regions, particularly on China, as a possible downside risk. A new experience is the supply side constraints that we have now. The supply side bottlenecks as a factor that can hold back production, given that you have a sudden barrier of rapid increase of demand. We will see how that plays out and what comes with it. Higher energy prices is also the fact that inflation is increasing strongly. Here, there is the point about how we think forward looking about monetary policy, and how monetary policy and fiscal policy can be synchronised in order to avoid any bumps or hard lending. These are risks that are on the horizon that one has to observe very carefully, but again, I think Europe is relatively strongly placed. With a common policy framework, we have a good basis for managing that.

Hafeez: Listening to you over our conversation, one thing that stands out is the evolution and, I guess, the positive, the steps that have been taken on the institutional side within Europe since the sovereign crisis. You sound fairly optimistic on that side. In some ways, from the ashes of the crisis, Europe has been able to build these institutions. There's momentum, and it seems like it's going in the right direction. Is that a fair characterisation? That even you've been surprised about how things have evolved, or not?

Strauch: Well, I mean, working in the crisis resolution mechanism, I always have had quite some confidence in the resilience of Europe, and also, in the fact that Europe is able to agree and move forward jointly. Also, the political resilience, I think, is stronger than is often appreciated. Obviously, when you have 28, 27 governments all for the euro area, 19 governments having to agree and parliaments being involved. This is, by necessity, always a very noisy process. It is not always easy, but what we saw in the last crisis is that there was the ability to act, because when there was a need to do it, and the proof programs, this went through. The institutions, like ESM, could be implemented.

Now, with this crisis, even more of a sense of solidarity, because everyone was hit by this exogenous shock, where nobody could be blamed for, and there was a great sense of moving together jointly. Now, we will have also difficult discussions forward looking in how to shape the policy framework. Take the final steps on banking union. Take the final steps, or move ahead, on Capital Market Union. Think about how we want our fiscal framework to look forward looking. What should be the structure? It's not already made. That is clearly, and there will be more to be done, but I'm, obviously, hopeful and believe that it can be done, and that we will get a good way also to manage the coming years. I think the degree of common perception in wanting to manage the exit from this crisis well and having a fiscal pass that works for all involved is very, very strong.

Hafeez: I always like to round off my conversations with a personal question, which is around books. I'm a big reader. Are there any books that you think people should read, that you find quite optimistic or just quite interesting?

Strauch: One of the books that I have actually read — that I find, at this stage, super interesting — is the book by Richard Baldwin, The Globotics Upheaval. I actually have invited the author for a conversation on the book. What makes it so interesting is the fact that it paints a long-term picture where IT developments will allow it to replace white-collar work services with artificial intelligence, or allow service provision to migrate via IT to other countries. The prediction is, that in the long run, it will fundamentally also affect our economies and how we work.

We need to be prepared for it, because there's a risk of upheaval. I think it's really interesting to look against that longer term picture. Also, on the back of the experience of the pandemic, where we have seen bigger digitalisation. And so, we have maybe seen a quantum move in that direction, but at the same time, we also experience how much we appreciate seeing each other in person again. I think the pandemic really provides a great background also for taking another look at this longer term picture, and that makes it so interesting.

Hafeez: Yeah, that's great. I'll definitely look out for the book. If people wanted to follow some of your thinking, and learn more about ESM and so on, what's the best thing they can do?

Strauch: We put forward our thinking in blogs that we publish on our webpage. I just mentioned one of the formats as well. The lunch talk, where I try to then invite authors on bigger topics that we find interesting. These, I think, are good formats for following up.

Hafeez: Great. I'll include the link on our show notes. With that, thanks a lot. It was great to speak to you, and good luck with everything on the ESM and European side.

Strauch: Bilal, it was a great pleasure talking to you. Thanks a lot.

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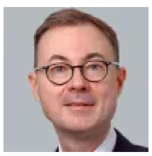

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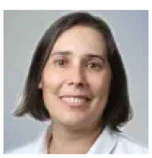

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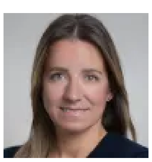

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