

Klaus Regling in interview with Le Figaro

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Interviews

ESM

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Interview with Klaus Regling, ESM Managing Director

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Interviewers: Anne Cheyvialle, Armelle Bohineust

Le Figaro: The Eurozone is doing better. Is this improvement sustainable?

Klaus Regling: Clearly, the euro area economy is ever more solid and it is showing performance we have not seen for a long time. We had to overcome two crises, the global financial crisis of 2008 and the euro area crisis that started in 2010. Therefore it took us longer to overcome this than the others. Now this is behind us. But not everything is well. Unemployment remains high in some countries, especially for the young. The reforms need to continue. But we are catching up with the United States and growth is higher here at the moment. However, we should not become complacent. The current growth rate is around 2% in 2017. That is above potential growth which lies more between 1% and 1.5%.

How has the European Stability Mechanism (ESM) intervened in this double crisis?

Since 2010, the European Stability Mechanism and its temporary predecessor have granted loans in the volume of about €270 billion to the euro area countries in difficulty. This was accompanied by painful but necessary reforms. Out of the five countries (Ireland, Greece, Spain, Cyprus, and Portugal) that have received help, four have successfully completed their programmes. Ireland and Spain have even

become champions of growth in Europe.

Greece is still in a programme?

Yes, but Greece has come a long way. In 2009, the budgetary deficit peaked at over 15% of GDP; last year, Athens had a surplus. Greece's progress has been significant. Greece could leave the current assistance programme in 10 months and refinance itself on the markets autonomously if the government pursues the agreed reforms in order to foster growth and jobs. The first successful bond issuance this summer was a good sign.

Italy is seen as the weak link. Are you worried?

Italy was not confronted with a major crisis and has never lost market access. But the country has had very weak growth for 25 years. Further reforms are in order. Other countries such as Finland and the Netherlands have not known crises and they have also had to implement difficult adjustments. In France, President Macron has launched an ambitious agenda to address the labour market and with regard to the fiscal situation.

Does the ESM have the capacity to intervene if a big Eurozone country gets into trouble?

I do not see such a risk in the medium term. In any case, we have a combined firepower of €700 billion of which we can still use more than €400 billion. Also, we have shown our ability to raise money on the market: this year we are issuing bonds in the volume of more than €60 billion.

A debate has started to strengthen the Eurozone. What are your proposals?

A lot has already been done over the past seven years. The countries have worked hard to reduce their deficits and improve their competitiveness. On the European level, we have implemented major institutional changes such as the creation of the ESM and banking union. It is very important to have a European supervisor for banks. Now we have get to the next stage and the Member States have different approaches.

What is your vision?

Let's start by completing banking union. The framework is defined with the establishment of the Single Supervisory Mechanism and the Single Resolution Fund (contributions paid by the banks and with the task of helping failing banks). But the American experience shows that the funds provided by the banks are not always sufficient in case of a major crisis. There needs to be an additional backstop and we are working on that. Another key issue would be European deposit insurance which would be useful. Half of the countries, especially Germany and Northern Europe are opposed as long as the weakest banks have not resolved their legacy issues and further de-risking happens. This is ongoing. For example, Italy solved the problem of three of its banks this summer.

What do you think of a dedicated Eurozone budget?

We do need an additional budgetary capacity to react in the event of specific asymmetric shocks. For example, one hypothetical case could be Ireland, should the country need funds if it were to be particularly exposed to a very hard Brexit. This would be very different from rescue with conditionality as we have done for Greece and other countries. This could be a rainy day fund and the volume could potentially be equivalent to 1% to 2% of the euro area's GDP, in other words €100 billion to €200 billion. This would be particularly useful as the ECB could not use its monetary policy to address a crisis in a single country. This would be against European rules. We already have instruments to reduce divergences within the European Union, for example transfers towards poorer countries in the framework of the European budget and the investment programmes of the Juncker Plan. These instruments could be strengthened.

Are you in favour of transforming the ESM into a European Monetary Fund (EMF)?

Indeed, almost all countries are supporting this idea. The idea is useful since the International Monetary Fund (IMF) will probably no longer participate in a rescue of a European state in the future. But for the time being no decision has been taken.

What would be the added value of an EMF?

The EMF will most likely take over certain tasks that the IMF has performed in Europe so far. Presumably, it would run the missions together with the European Commission, notably in designing the conditionality for the rescue programmes and in monitoring it. I would like to remind you that the troika (the IMF, the ECB and Commission) that monitors programme countries includes the ESM today. Also, the financial contribution of the IMF has decreased from one third to 10%, for example in Cyprus. The remaining 90% is financed by the ESM.

Does the Eurozone need its own finance minister?

Yes, that could allow it to coordinate the economic policies of the different countries and to represent the euro area in international bodies such as the G20 and the IMF. But this would certainly take some years.

Are we currently at a good moment to strengthen the Eurozone?

It is a good moment. We are out of the crisis. France has a pro-European government and the elections in Germany on Sunday should also go in this direction.

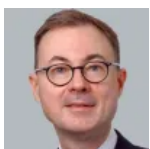
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