

Transcript of Klaus Regling's interview with hr-iNFO radio (Germany)

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10/10/2017

Interviews

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Topic: 5 years after the ESM's inception

Broadcast on 7 October 2017

hr info Bilanz: The fifth anniversary of the ESM is an opportunity to look both back and into the future with the man who heads the euro rescue fund. His name is Klaus Regling. He is German and his work is headquartered in Luxembourg. Before this radio show I asked him what his assessment of the past five years is.

Klaus Regling: My assessment is positive. Of course, it would have been better had it not been necessary to establish a rescue fund. But the euro crisis that followed shortly after the global financial crisis made it necessary to establish such a rescue fund. And the way we work has proven itself: we only grant loans to countries that lose market access if these countries change their economic policy. We did not invent this model. It is an approach that the International Monetary Fund has been applying successfully across the world. Today we see that the countries that received loans from the ESM and its predecessor, the EFSF, are doing well. Taken together five countries have received loans. Four of the five countries have successfully concluded their programmes: Ireland, Spain, Cyprus, and Portugal. These countries are success stories. They have among the highest growth rates in Europe and now again lower unemployment rates. The fifth country, Greece, is the most difficult case. In Greece the programme will still go on until August next year.

Those countries have received loans. Will these loans be entirely repaid, do they

have to be repaid?

Very clearly, yes. They are loans, not gifts. They will be repaid and the interest will also be paid. We are already receiving interest payment from those countries that have exited their programmes. The maturities are long. That helps the countries to regain their debt sustainability. Along with the long maturities the interest rates that we charge are relatively low. They are roughly equivalent to our cost of funding. The ESM issues bonds for which we have to pay relatively low interest rates because of our good credit rating. This is the result of our strong capital. And we pass on our own cost to the beneficiary countries who would have to pay more on the market. That means, the loans have to be repaid, including interest. That means, there are no costs for the German taxpayer or the taxpayer of the other euro area member states. They are guaranteeing the activities of the ESM and that is the reason for our low interest costs. But no taxpayers' money is being transferred into other countries.

Taxpayers' money would only be necessary if one creditor country would not repay its debt, right?

That is correct. This is the risk that our Members, the countries with the euro, accept. But up to now there has been no cost. And I assume that all the countries will repay their loans and that therefore no costs will arise for taxpayers.

You say that Greece is a special case. Is it possible to reform a country with such a gigantic debt burden so that it can stand again on its own two feet?

Yes, that is possible. As I already mentioned: As our loans are so cheap the debt level is not the determining factor. The annual burden of the interest payments on the economy or the budget is important. They are currently relatively low. The reason is that we can charge low interest rates to the country without incurring any cost for the taxpayer. That means, if Greece continues its reforms – that have already yielded their initial successes – the country can regain debt sustainability over time. The reason is that savings are relatively big for the country thanks to our favourable loans.

There has been a dispute between the EU and the IMF about the issue whether Greece needs to be relieved of a large part of its debt. What is your position?

We will look at the issue of whether further debt measures are necessary next year. But there is not even a debate if there should be a cut in debt. The only issue on the table could be a further extension of maturities. Also, the IMF is not asking for a cut in the debt.

As a consequence of French president Macron's recent speech there is a debate in full swing, how Europe will position itself and how it will deal with crises. What role could the ESM play in this? Would it provide loans or would it watch over reform implementation?

Let me focus on the ESM, which is one element in this broad debate. There is growing consensus that in the next crisis the International Monetary Fund will no longer play the role that it has played in the past years. I hope the next crisis does not come too soon but we know in market economies there are occasional crises. We have developed new institutions and expertise in Europe on how to deal with crises. Seven years ago, at the beginning of the crisis, we did not have that. At that time, we were happy that the IMF financed about one third (of the rescue programmes) and that we could rely on its expertise. By now we should be able to manage on our own to a large extent. This is the reason why many think that the ESM should take over a part of the IMF's tasks in the future. That would mean that we would have to be ready at all times to develop a programme for a country, that gets into difficulties and needs a loan and that we are also able to do the surveillance for this programme. Of course, the European Commission will continue to play a role while the IMF probably won't.

So the ESM could become a European monetary fund?

Yes, that would be the idea, as a result a broadening its tasks. As I mentioned: The discussion on this is only starting now. On Monday (9 October 2017) the European finance ministers, the finance ministers of the Eurogroup, will talk about this topic. At the euro summit in December the topic will also be on the agenda. But this is the idea that is behind it: to broaden the tasks of the ESM. This concerns the design of programmes, their surveillance, perhaps new facilities, possibilities of granting loans as a so-called backstop in banking union and also regarding the formalisation of debt rules in the euro area that had to be found ad hoc in the past. There is a whole spectrum of possibilities of how the ESM could take on additional tasks.

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