

Klaus Regling in interview with Augsburger Allgemeine (Germany)

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Interviews

Interview with Klaus Regling, ESM Managing Director

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Interviewer: Michael Kerler

Augsburger Allgemeine: Mr. Regling, what does the situation in the crisis countries look like today? Have they put the crisis behind them with the help of the ESM rescue packages?

Klaus Regling: We helped five countries: Portugal, Spain, Ireland, Cyprus and Greece. In total, we have granted €273 billion in loans - that's a huge sum. Four of the five countries are clearly success stories today. They can refinance themselves on the market independently. They have the highest growth rates in Europe and unemployment is falling. In Ireland, for example, it is lower than before the crisis. Spain has 3% employment growth. That's not surprising, because these countries have implemented more reforms than anyone else in the world.

Greece is probably still a problem case, isn't it?

Greece is the last country for which support is still running. The programme lasts until August. That's a good thing, because there is still some work to do in Greece. But even in Greece, there is great progress. It had the highest budget deficit in 2009, more than 15% of GDP. In 2016, the budget showed a small surplus, just like in Germany.

Is the recovery in Greece sustainable?

As I said, there is still work to be done, but progress is strong. Greece has regained its competitiveness. Salaries and pensions have fallen by 20-40%. This lowers prices, and makes the country competitive again. The current account deficit is also falling: not only tourism is booming, exports are also rising. There is clearly sustainable progress. This year, growth is expected to come in at 2.5%.

What still remains to be done in Greece?

The administration is still weak, the tax administration, for example. There are problems with the legal system. Privatisations need to continue, as do reforms of the public administration. It would be a shame if the progress made so far were to soften at the end of the programme.

Greek debt remains high. What do you think of another round of debt relief?

Greece already received considerable debt relief. Private creditors accepted a haircut of over 50% in 2012. Public creditors do not accept a haircut, but granted favourable financing, without any cost for the German taxpayer. Now we are considering whether more debt relief is needed at the end of the programme, for example by lengthening maturities. But none of this will amount to a haircut.

Do you think the ESM will ever get back the €273 billion in loans?

I am convinced that all loans will be repaid. I know there is great scepticism about this in Germany. Renowned German professors five years ago said that Spain would never repay its loans. That turned out to be nonsense. The loans are being serviced, the interest is being paid, and Spain has already started to repay its loan early.

What role do you see for the ESM in the future? Have you made yourself redundant?

I think it is important that there is a crisis mechanism in the long run. Our economic system just runs into a crisis from time to time. The fact that we have made ourselves redundant at the moment, is good. It means we've reached our goal. But the euro area crisis mechanism, the ESM, is a permanent institution. And there is a discussion as to whether it should undertake additional tasks to deepen monetary

union. The euro finance ministers are mostly of the opinion that the European Commission and ESM should in the future jointly design and negotiate reform programmes for a country, should this becomes necessary again in the future.

Would you have to do more than just disburse money? Would you also advise and propose reforms?

Yes, that would be the outcome of such a new mandate. In Greece, we have already grown into this role. Not only the troika is on the ground, the ESM also participates. The troika has become a quartet.

Would you wish for a stronger role?

It would be useful. For one thing, the International Monetary Fund seems to be increasingly withdrawing from Europe. On the other hand, Europe should be prepared in case of another crisis.

Will the ESM become a European Monetary Fund like the IMF with its 2,500 employees?

I do not see that. The IMF is responsible for the whole world and thus much larger. In addition, the European Commission is the ESM's partner. It already monitors the economic and financial policies of the countries, and makes recommendations. The responsibilities of the Commission are regulated in the EU Treaty and that won't change.

So far, the ESM is intergovernmental and not part of the EU. Will that change?

That is part of the debate. The Commission wants to integrate the ESM into the EU Treaty and to develop it into a European Monetary Fund. I think it would be good for the ESM to be included in the EU treaty. However, the path proposed by the Commission is ambiguous. What I would like for the ESM is a role similar to the European Investment Bank – it is expressly mentioned in the EU Treaty, but is relatively independent of the Commission and largely controlled by the Member States. But such a position is only achievable for the ESM if the EU treaty were changed, and that is unlikely to happen over the next few years.

Would you need more money?

No, we have an unused lending capacity of 400 billion euros.

What do you think of French President Macron's proposal to create the position of a European Finance Minister?

That is certainly not a priority at the moment. But one can think about what tasks this person would have. He would certainly chair the Eurogroup, and the ESM Board of Governors. He could represent the euro area internationally. The crucial question is whether the euro area will get its own budget, and there is no consensus about this at the moment.

Another topic: In Germany, cooperative banks and savings banks are worried about a European deposit insurance, because they might have to back foreign banks. Does it make sense to introduce a European deposit guarantee?

European finance ministers agree that a European deposit insurance will one day be put in place, because it would be good for the smooth functioning of the monetary union. But it is important that legacy problems are dealt with first. Bad loans need to be reduced, and bank balance sheets need to be cleaned up.

So German savers would be liable for foreign investors? This is a criticism you often hear.

A European deposit insurance is also in the German interest. For one, all rescue programmes would have been smaller if it had been in place. Much of the ESM money was used to stabilize banks, which were experiencing huge deposit withdrawals. On the other hand, it could well be that even German savers profit from the insurance one day. Fundamentally, the European financial and capital markets would work better with a completed banking union. And this would make the flow of capital from Germany smoother - the necessary counterpart to the German current account surpluses.

Do you really think it is the right thing to integrate Europe further? Right-wing parties and populists in Europe want to halt it.

There are more populist parties than before, also in Germany. This worries me. On the other hand, the euro has the highest approval rate since 2004. That's good news. I think people agree that Europe should do more in certain areas: common border security, climate protection, fighting terrorism, and a monetary union that works. Things countries cannot deal with on their own.

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