

Klaus Regling in interview with De Telegraaf (Netherlands)

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Interviews

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Interview with Klaus Regling, ESM Managing Director

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What did you talk about with Minister Hoekstra?

There is a debate about the deepening of Economic and Monetary Union. So it is good to regularly exchange ideas with each other. Of course he is part of that debate, I also have ideas about that.

What still needs to happen?

We have made progress, but we are not ready yet. The single resolution mechanism, intended to settle the bankruptcy of a bank, is not yet complete. There needs to be a financial backstop to that. There should eventually also be a European deposit guarantee scheme, after legacy issues have been sorted out. And developing the ESM is important. Most member states agree that the ESM should play a bigger role in the future.

Aren't you in favour of the ESM becoming a European Monetary Fund?

There is no need to change the name to EMF. We are now called the European Stability Mechanism, which is a good name and it is how we are known in the capital market.

Is the name “European Monetary Fund” too sensitive?

Also. Some people find the term EMF inappropriate because 'monetary' carries a certain connotation. We do not want to be a monetary institute.

But regardless of the name, what about the content?

If we get a broader mandate, we should work together with the Commission right from the start, to negotiate and monitor the progress of reforms. This also means that we need to be well informed when times are economically quieter. Right now, we do not keep an eye on all 19 member states. That should become part of the new mandate.

One of the discussion points is a so-called rainy day fund, financial support for economic setbacks. How many risks do we need to share with other Member States?

I would describe that differently. We need instruments to make the monetary union less susceptible to crises. We do have a safety net for when countries can no longer finance themselves - the ESM. But we also need a mechanism to achieve macroeconomic stabilisation. Large monetary unions, such as the US, also have mechanisms to adjust the economy if differences between regions become too big. For example, tax revenues or social security flows from one region to another, depending on their relative cyclical situation. You can set this up without the euro area becoming a transfer union.

How do you guarantee that? Chances are that the Netherlands will pay for the Italian unemployed more often than the other way around...

If you look back over the past 25 years, there were times when Italy was better off economically than the Netherlands.

In Italy, the new government wants to lower taxes and increase public spending. If the country lands in trouble due to incorrect policies, should the Netherlands have to pay for that?

This is exactly an example of what would not be covered by such a new mechanism.

Not if things go wrong due to a fault of their own. The mechanism would be created to help countries if they develop differently from the rest of the euro area. You can have mechanisms for that, through the revenue system, social security or financial arrangements, to dampen those effects.

The Netherlands is sceptical about this. We are afraid to have to pay for the mistakes of others.

I understand that. That is why such a new mechanism should be designed without permanent transfers or public debt mutualisation. A country that needs help must pay back and other countries can receive support at a later time. Otherwise it does not make sense, and is even dangerous. Because then countries are rewarded for policy mistakes.

There are talks about letting Eastern European countries, such as Bulgaria, into the euro. Is the euro area strong enough for that?

Even during the crisis, the euro area continued to get more members. It is therefore nothing new when new countries join. I am convinced that within the next 10 to 20 years all EU countries that are not yet members of the euro area will have introduced the euro. That was always the intention, and I think it will happen.

Wouldn't that increase existing differences within the euro area?

Yes, to a certain extent. That would be an extra reason to introduce instruments aimed at addressing such differences. Incidentally, it is not a problem when countries with a lower average income than in the rest of the euro area join. It only becomes a problem - and that was what we saw in Greece and other countries - when incomes rise faster than productivity. Because that determines competitiveness.

Are you afraid that the Greek government will reverse some reforms?

No. They have promised these reforms. The Greek budget this year is slightly better than expected. The Greek government may use that budget. If they change their policies, they must first discuss that with the European institutions. They've not been cut loose for 100 percent yet.

Because the Netherlands wants its money back.

No, the ESM wants its money back. As long as we are being reimbursed, there are no costs for the Dutch taxpayer. Not a penny of Dutch taxpayer money has so far been spent on the Greek support packages.

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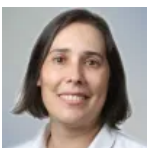


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