

Transcript of interview with Klaus Regling, Managing Director, ESM

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Euronews: Europe has suffered the worst economic and financial crisis of the last decades but finally survived. European citizens however, paid a high price for that. And now they are losing faith in the European project. To discuss about this I am joined here in the Brussels Economic Forum by a key person of the crisis management, the head of the European Stability Mechanism, Klaus Regling.

Mr Regling, many thanks for joining me on Global Conversation. So, you are a head of a mechanism created at the peak of the financial crisis to give bailout money to countries in need. You have given so far over 250 billion euros so far, if I'm not wrong. So where does this money come from? And I am asking this because of all this rhetoric of the taxpayers' money, about French or Germans paying the countries who have this need. Is this argument justified in real terms?

Klaus Regling: Well, yes and no. The money that we disburse to these countries comes from the markets. When we make a disbursement to Greece, or in the past to Ireland or Portugal, this is not money that comes from national budgets of our shareholders. However, the arrangement means that the budgets of our shareholders assume risks because when they guarantee our operations, these are risks taken by national budgets. If something goes wrong, these risks would lead to real cost.

Greece is a special case as it is the only country still under the ESM programme and supervision. What is the situation now? We have also a Eurogroup ahead on Thursday. What should be expected?

Greece is a special case indeed. All the other four countries which have exited their programmes successfully, they only needed one programme. Greece is in the third programme for one reason - that the starting point was the most difficult, the misalignments were the biggest and also there was a big setback in the Greek developments a year ago. During the first half of 2015, the Greek government tried a new approach, they reversed some of the reforms and therefore the positive developments which we also saw in Greece in 2014 were interrupted quite seriously.

Do you mean that the third programme could have been avoided?

Well, I don't know if it could have been avoided completely, but certainly it would have been much smaller. But now we have the third programme, the cooperation with the Greek government is again productive. When the Eurogroup meets, I think there is a good chance that a decision might be taken on the next disbursement.

And there is this big discussion about the debt relief, debt re-profiling for Greece. There was a statement by the Eurogroup last time, that a mechanism could be triggered after the programme if needed. What does this "if needed" mean? Is the debt sustainable or not?

Well, that's the big question. And given that we have a very long time horizon during which this programme runs, the programme will come to an end but loans will only mature over the next 30 or 32 years, we want to make sure that during this period, Greece can stand again on its own feet; we have to deal with the uncertainties that come with such a long period. We all know that forecasts are always risky, there is uncertainty even for the next year. So, as we are dealing with a 30-year period, necessarily uncertainty is much, much higher. And therefore, the statement of the Eurogroup is quite appropriate that they stand ready to help Greece if Greece also implements reforms. I think this is very good because I think to take all the decisions now, might be too little or not enough – it's very hard to say. And if it's not enough, then Greece would suffer, and if it's too much, then the Member States of the euro area would not be very happy.

In less than ten days, the British citizens will decide whether they want to stay in the EU or not. So, if they decide to leave the EU family, what will be the next day for Europe? What is your biggest fear?

Politically, it would be a big loss for the EU if the UK leaves and that's why every EU government wants the UK to stay. I think economically, there would also be costs, particularly for the UK, there are many studies on that. The precise cost is not clear because it will very much depend on what happens the few following years, what kind of arrangements the UK would find with the EU. There will be some relation of course, there would be trade, there would be a relationship, but how it will look like exactly, we don't know. We don't know how long it would take to come to such an understanding and therefore it's very hard to predict what exactly happens. It's also possible that markets will be very volatile.

This could revive a new crisis in the eurozone or the EU?

That I don't know because volatility in markets does not always mean immediately a crisis. But volatility in markets can be bad for economic developments. But I don't see crisis coming out of that.

And as you are one of the architects of the stability pact as we know it today, Jean Claude Juncker, the EU Commission President has been criticised of giving leeway, giving time to France another time to reach the fiscal target, the deficit of 3%. Is France a different case?

I think it's important that we have clear fiscal rules in the Monetary Union. Because in the European Monetary Union we have this unique experiment that monetary policy is totally centralised, with one interest rate, one exchange rate. Other policy areas, fiscal policy, structural reforms are done in the different countries in a decentralised way and there were people who have always argued for decades that this cannot work. And our answer has always been that it can work but it needs to be well coordinated. We have also, during the last few years, made the stability pact more flexible to accommodate different economic situations and I think that it's good to some extent.

Should France be given more time to adjust?

All that depends on the analysis and the Commission is in charge of that. As I said there are now more factors taken into account and deciding on flexibility but overall there has to be equal treatment among the countries.

And a last question. Have you ever felt that the eurozone might collapse?

I think we got close to that in 2011 and 2012. But because all these different initiatives, European Central Bank, EFSF/ ESM, Banking Union, the adjustment in the countries concerned, it was already in a good way, therefore it's very easy to understand now with hindsight why in the end this did not happen. We got close to it and I think also that without the creation of the EFSF for instance, some countries would have been forced probably to leave the euro area, so I am very happy that this could be avoided. So we had very risky moments during the last few years but I think we can be quite proud of what has been achieved.

So no country is at risk of leaving the Eurozone right now.

No, not at all.

Mr Regling thank you very much for being with us.