

Interview with Klaus Regling, ESM Managing Director

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Süddeutsche Zeitung: Mr Regling, when you started your job rescuing the euro, you said that you would prefer [the EFSF] not have anything to do. Now you're getting a second term.

Klaus Regling: Yes, that's right. When I started the predecessor of the ESM, I was planning an organisation of 12 people.

That was six years ago.

Nothing went as expected. Five countries were in big trouble. We helped them with our loans.

You're sounding really modest. And yet the ESM may become a European Monetary Fund over the next few years. Wouldn't the next logical next step be that Europeans take their fate into their own hands?

I agree that the time is ripe for a European Monetary Fund. It will probably exist one day in the future. But first you need to find consensus in the Member States. Global trends – the push-back against globalisation and obviously also what's happening in the USA – can only mean that Europe will consider its own role more. The ESM is ready to play its part.

So the ESM will rescue struggling euro countries on its own in the future?

That's conceivable in the future. But in countries that need loans at the moment it's better to end things the way we started them, which means with the International Monetary Fund (IMF).

Is that a reference to Greece?

Yes.

But it's clear that Athens doesn't need the full €86 billion that are available. So why pull the IMF on board, particularly because their loans are more expensive?

It is true that we can provide much larger loans than five years ago. At that time, we needed the IMF because of its financial means. And we needed its expertise more than we do now. But it's still important that the IMF participates. If not, you would cause political trouble in some countries.

Will more money be available for Athens without the IMF?

No, there would be no further disbursements. That's the understanding of several euro area parliaments and governments. We started to help Greece with IMF money, and the political will is such that we end it that way.

With all due respect, that sounds like a political stranglehold for the IMF.

If the Fund decides not to join, it wouldn't be in line with what governments have agreed with their parliaments. The German Bundestag and several other parliaments want the IMF in.

And if they don't join?

Then we'll have to think again.

Europe's assessment of the situation in Greece is much more positive than that of the IMF.

It is true, our forecasts differ. For instance when analysing how sustainable the Greek debt is. But we don't disagree when we draw up a list of what Greece needs to do in the coming 18 months.

Why do the Greeks have to cut costs again by so much more?

The way you put that isn't correct. We agreed on a primary surplus for 2018. Obviously it depends on your forecasts, on how much is needed to get there. And that's where opinions may differ. There are differences between the European institutions, which say that Greece has done almost everything to consolidate the budget, while the IMF says they still need to do more.

When will there be a decision?

That depends on when the second programme review is concluded. We've had continual delays over the past six years. And we're in one of those phases again now.

Athens first asked for money seven years ago, and it still can't survive on its own. Looking back, would you have done things differently?

Greece has made progress. At the start of the crisis, the budget deficit was 15.6% of GDP. Now it's 1%. If they use the coming 18 months well, I am confident that this will be the last programme that Greece needs. I believe that Greece can stand on its own feet again in the middle of 2018 and will be able to finance itself on the market.

The German finance minister not long ago raised the pressure by threatening Grexit again. Is that an option?

There is no Grexit option as far as I am concerned. But there has to be pressure. We only pay out when conditions are met. We need pressure, not a debate about Grexit.

If the ESM is built into a European Monetary Fund, wouldn't you be nabbing clients from the IMF, because Europe would help its own nations in difficulty?

The IMF has done relatively little in Greece. The Fund currently holds €12.5 billion in outstanding loans. At the ESM, the number is €162 billion. For Europe as a whole, the situation is as follows: The IMF has €35 billion in outstanding loans, we have €247 billion. When you look at the order of magnitude, the IMF has done only a fraction of what we have done.

Still, the non-Europeans in the IMF board say that the Fund has been too active in Europe.

That's a real problem. Such grumblings on the IMF board are one of the reasons why you've seen regional funds come into existence. In Asia, the Middle East, Latin America, and the ESM in Europe. These funds have started to talk to one another. The IMF is clearly the centre of the international foreign exchange system. It is the anchor that stops the regions from drifting in different directions.

So the IMF is more of a symbol than a lender?

The experience shows that the financial means of the IMF are too small to help a country in a monetary union. The connections between nations in a union like the euro area are much closer. That means that the financial needs are too big for the IMF once a country loses market access. The

Fund's policies don't allow that, nor do the other IMF members want it. And that's why Europe has to take its affairs into its own hands.

That sounds like an existential crisis for the IMF.

It's not a threat. It is also true that every European country is a member of the IMF, and therefore is entitled to get an IMF loan.

The success of the IMF is based on the fact that it operates independently from political influence. What do you say to criticism that the ESM isn't immune to political influence?

It is a widespread illusion to believe that the IMF is apolitical. The largest finance ministries of the world are behind the decisions of the IMF board. And the USA have a particularly large influence, because they are the biggest IMF member, and because the IMF is based in Washington, D.C.. At the same time it is true that IMF staff enjoy strong credibility because they have decades of experience in fighting crises.

How big is the risk that the Americans no longer support Europe's policy towards Greece under the Trump presidency?

We're all trying to understand how the U.S. administration will act in the different policy fields. Of course, one is worried. But we've also seen that not everything that is announced on Twitter becomes reality. (laughs)

Upcoming elections in the Netherlands and France have the potential to stir things up a bit in the euro area, if the nationalists were to win.

That's not what I expect, but the markets are watching. That's why the spreads in France are going up. But don't forget that the most likely outcome is that France will vote in a president who is Europe friendly. That's why I'm positive.

And what about Italy?

I don't expect elections in Italy this year.

Not yet.

I have different concerns for Italy. The economic dynamics have been very weak for 25 years now, and there's a large backlog of reforms needed. Growth has been only half the euro area average for 20 years now. Something has to happen.

But what?

There is a whole list of structural reforms which I already discussed with the Italians when I was still Director General at the European Commission.

More than 10 years ago?

Exactly, that's the problem. So far, not enough has happened to raise potential growth, or in other words, productivity.

In Italy they say the poor situation is because of the euro.

That's not true. You also hear such views in Germany. The problems in Italy predate the euro. Our currency is a success story.

And when will the next country join the euro area?

I expect that every EU country will join the euro in the next 10 years. Obviously with the exception of Sweden, Denmark, and the UK, which will unfortunately leave us. There are clear statements of intent.

You're sounding very upbeat.

Not at all. I'm just being realistic. I always am.