

## **Interview with Klaus Regling, ESM Managing Director**

**Published in *El País* (Spain) on 26 February 2017**

Interviewer: Antonio Maqueda

---

*El País: In Spain there is a debate about the role played by the Bank of Spain during the crisis. You took part in the bailout of Spanish banks as head of the ESM. How do you assess it?*

Klaus Regling: We closely monitored the restructuring of Spanish banks. The programme was well implemented and it shows that our crisis response approach works. Much less money than expected was used and doubts in the market were dispelled. In summary, the health of banks was restored and this allowed the economy to become a growth champion in Europe.

*What lessons should be drawn by Spanish authorities?*

The decade before was known as the Great Moderation, with a long period of low rates, which people thought could last for a long time. Things turned out differently. Bubbles arose in many parts of the world including Spain, where real estate prices grew three-fold. It was also partly due to the adoption of the euro, which implied a permanent shift from high to low interest rates. That justified price hikes because people paid lower interest rates on their mortgages and could thus afford higher prices. But it got out of hand. I remember at the time, I worked for the Commission, at DG ECFIN [Directorate-General for Economic and Financial Affairs], and I travelled to Spain to discuss this with the authorities. The ECB took care of monetary policy, but fiscal policy, reforms and banking supervision were all in the hands of domestic authorities. There was a fiscal surplus, but now we know it was too small. And the bank supervisors weren't tough enough, just like in most of the developed countries in this period.

*What reforms are left to be done in Spain?*

Let me make clear that compared to other countries, Spain has done things quite well and the results show – one of the fastest growing countries in Europe with a restored banking system. But looking ahead it's important to respect the deficit goals. That will be watched over very closely. Demographic developments may also require additional pension reforms.

*De Guindos says that Spain is growing more because they cleaned up the banks. Shouldn't Italy follow this example?*

There is no crisis of the banking system in Italy. A small number of Italian banks are in difficulties and the government is working with the Commission to find solutions.

*But is it fair to let Italian shareholders get away without suffering losses?*

You cannot say that. The shareholders of Monte dei Paschi lost everything. We have a banking union with rules. So far those rules are being fulfilled and the Commission is in charge of making sure that happens.

*Regarding Greece, there are disagreements between the IMF and the Europeans. Have they been settled?*

There are disagreements in two areas: the IMF is more pessimistic regarding growth. We are more optimistic because we have incorporated performance in 2016, which was better than expected. Once we get all the figures from Athens, we'll have a clearer picture of the situation. I hope we're right because that would make it easier for Greece. The second source of disagreement is that the IMF wants to take additional measures regarding debt relief now. In Europe we think more debt relief measures could be taken but only once the programme is finished, if necessary. We think this is the best strategy given the existing uncertainty. But we are bringing our positions closer and with the latest figures from Athens we shall be able to sort out our differences. We are working hard to keep the IMF on board. Several national parliaments approved the Greek programme only on the assumption that the IMF would participate.

*Isn't it too much to demand a primary surplus of 3.5% of GDP after they've lost 30% of GDP?*

There's no disagreement on the level of primary surplus required - it was signed by all the leaders including prime minister Tsipras. According to our estimates, the measures already taken are sufficient for Greece to meet that goal in 2018. The IMF, however, disagrees with that projection. Even so, the Greek government does not question whether they must reach that surplus. They question how long they will have to stay at that level. That topic is open to discussion, because the agreement says it has to be reached in 2018 and be kept in the medium term. There is no definition of what medium term means but we have time to agree on that.

*Now that the sovereign crisis is behind us, the issue now is Euroscepticism.*

Growth in the Eurozone in 2016 was greater than in the US. While 80% of the US population have not experienced real income growth in the last 20 years, in Europe 80% have. In spite of the crisis, Europe has the best income distribution in the world. Even though unemployment rates are still high, job market participation has grown and there are more Europeans working than in 2000. Despite this, there are movements against globalisation and focusing on national identities. I believe this is a mistake.

*But doesn't that happen because of poorer economic prospects?*

There may be that perception. Unemployment is still high in Spain and other countries. That helped to fuel populist movements. But they are misguided. Aggregate figures in Europe are better than elsewhere in the world. Also, there are also populist movements in other developed countries such as the US. Switzerland is a rich country and they've had this problem for quite some time. In the euro area, it is something new and we're trying to understand how to address it. Even so, contrary to some, I'm not pessimistic regarding the upcoming elections in the Netherlands and France.

*Should the EU and Germany do more to address this phenomenon?*

Europe has to focus on the areas where we can only succeed if we work together, for instance the fight against terrorism, climate change, border protection, defence, foreign policy or a few economic items.

*So not much more can be done towards economic integration?*

Not much more. I do not share the view that we need a full fiscal and political union in order for the euro area to work, a sort of United States of Europe. There is no appetite for that, so I don't see that happening. However, the euro area can work well if we avoid the errors of the past. For instance, that means keeping debt low. The Netherlands and Finland, for example, also went through economic hardship but were not attacked by the markets. That is due to their low debt levels. Loss

of competitiveness is also a common feature among countries that borrowed from the ESM, such as Spain, where wages rose more than productivity. We have learned from this experience, and the new procedure to act on macroeconomic imbalances is designed to prevent such mistakes.