

“We need to think about a treaty change over the next years”

By Jorge Valero

Interview with Klaus Regling, managing director, European Stability Mechanism (ESM)

Are you concerned about the situation in Portugal? Do you see potential negative spillovers?

For what I've seen, the hole is not that big. The country still has more than €6 billion available for banks, disbursed by the European Financial Stability Facility (EFSF). Banco Espírito Santo is a big bank, but the authorities took quick action. I don't see this case as a big problem for Portugal or for the euro area. I am sure the Portuguese will be able to handle this well.

Do you think this turmoil raises questions about Lisbon's decision to deny a precautionary credit line?

No. As I said, it is not such a tremendous problem for the Portuguese economy. If the Portuguese government had known this, they wouldn't have changed their decision [on a clean exit from the EFSF programme].

Spain decided to repay €1.3 billion earlier than scheduled. You said this was a “wise and good” decision. Wouldn't it be wiser to wait for the results of the asset quality review and the stress tests?

To the best of my knowledge, the Spanish banking sector is strong and resilient. There may be some small problems but nothing substantial. On the early repayment: we didn't ask for it, but we have no reason to say it was inappropriate, on the contrary: I welcome the decision.

But economic recovery is slow and the debt level is still very high...

When you look at the International Monetary Fund's programmes, you see that it takes a number of years before you see benefits. Unfortunately, that is normal. That is what happened in Brazil, in Turkey, in Indonesia. These countries went through very painful adjustments for the population, and there was no immediate improvement. But a few years later, we saw the results. They were the best performing economies in the world during the last decade. People ask the same questions in Europe today: where is the light at the end of the tunnel? If the process continues, I am very optimistic about the

so-called periphery countries. They may be the best-performing economies in the medium term.

Is there something you would have done differently to alleviate the social pain of adjustment in the bailout countries?

Many things happen at the same time in the eurozone. One is the continuation of reforms. Another is the implementation of the banking union, in order to reduce the fragmentation of financial markets. The European Investment Bank (EIB) is undertaking several projects to stimulate growth. Furthermore, without the money provided by the EFSF and ESM to the countries that borrowed from us, adjustment would have been much more brutal. We are buying time, so the countries can implement reforms. Without our loans, the adjustment would have had to come overnight. The ECB is contributing to overcoming the crisis with its unconventional monetary policy. All of these measures have the same goal in the end: to create growth and jobs. One can argue whether the deficit could have been brought down faster or more slowly. But the direction is beyond any doubt. When deficits are too high, you have to bring them down. Structural reforms are necessary. We needed progress in these countries. And we are seeing progress. That's why I am optimistic in the medium term.

Do you see the need for more flexibility in the fiscal rules to facilitate growth?

The European Council has decided to stick to the existing rules of the Stability and Growth Pact and to make use of the flexibility that the Pact already foresees. The Commission is in the driver's seat. It is the guardian of the treaty. It has to interpret the rules if there are grey areas.

Do you think this new College of Commissioners will change the interpretation of the rules?

I would be surprised, because I know where Jean-Claude Juncker stands. He was not only chairing the meetings of the Eurogroup but he was personally involved back in 2005, when we agreed on amending the Stability and Growth Pact. He has reiterated several times that there is already flexibility that can be used. Nothing else is needed. I don't expect a major shift.

Do you think it is feasible to have governance over structural reforms just as

there are for fiscal rules, as ECB President Draghi has proposed?

I understand very well why Mario Draghi made such a proposal. It will make the monetary union more stable. But it may be difficult to put rules on structural reform in one stringent framework. From an operational point of view, it will be very difficult to find the framework that is as precise as on the fiscal side, where you have the fiscal deficit as an operational variable, and you can work with it relatively easily. With structural reforms it is much more difficult. You cannot capture all in one figure.

Another idea under discussion is a permanent presidency for the Eurogroup. In this context, do you think the European Parliament would need to set up a subcommittee on eurozone issues?

I think it is an interesting proposal because it seems likely to me that euro area's integration will continue. We will then need a different governance for the eurozone than for the EU as a whole. I am not sure whether it is possible in the short run, or whether it requires more fundamental legal changes to the treaty. But I think it's an issue that needs to be addressed during the term of the next Commission.

Are you suggesting that the treaty needs to be reopened over the next five years?

My personal view is that at least you need to think about that. We all know that it is difficult, but we are moving in that direction.

What would you like to see in a treaty change?

The reorganisation of Parliament is one issue. Another one is the integration of the ESM in the EU treaties. If that happens, I think the European Single Supervisory Mechanism will be taken out of the ECB and will become an independent institution.

Do you envisage a budget for the eurozone, as Juncker has suggested?

Obviously, some risk-sharing within the eurozone could be helpful in certain economic situations. In particular, when asymmetric shocks occur. But we know asymmetric shocks don't occur very often. Jean-Claude Juncker mentioned a targeted fiscal capacity for the eurozone, which is an interesting proposal. However, a precondition for this is a consensus among the member states concerned. ■