

Klaus Regling in interview with Bloomberg TV

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**Transcript of interview with ESM Managing Director Klaus Regling
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Interviewer: Francine Lacqua

Do you worry that political instability, which is not really at the forefront, but it's not political stability in Europe, means that it's more difficult to make reforms needed to protect the euro and the euro area in tough times?

I think the experience in many areas is that it's easier to come together and find agreement when there is a crisis because then there's pressure from the outside. And we have seen that in the euro area 5-10 years ago, including the creation of the ESM, that all happened with a surprising speed because 19 countries had to agree on something really new. When we are out of a crisis, and we are very happy to be out of the crisis, it's not surprising that it takes longer because 19 countries have to come together. They have different views, different starting positions. So it takes

longer. But I much prefer to be out of the crisis.

Are you worried that recent developments in Italy, for example, mean that they will delay doing the outstanding reform of the ESM?

Well, we do need a consensus among member states. So every country is important, but we work very well together with the current Italian government. We had a meeting of the Eurogroup on Monday and the Italian finance minister Roberto Gualtieri is fully on board with the reforms that have been under discussion. So I am confident that we will find an agreement by March.

But how critical is it? Is this of utmost importance this gets finalised by March?

That's my expectation. In the Eurogroup, there was a very broad consensus that this should happen and will happen.

Are we going to get a common deposit insurance scheme in Europe?

Well, that's different. When I say March, this is for ESM reform, which is one important element. So the mandate of the ESM will be broadened. New facilities will be created, so that's important on its own. But it's only one element to strengthen monetary union. A lot happened in the last 10 years. This is the next step. What is still missing then is indeed to complete banking union. And in banking union one element that's missing is a common deposit insurance; that will take a while. That will not be wrapped up by March or June. But we are starting a political process to make it possible that it can happen over the next few years.

But how important is it that we have it for financial stability and what kind of compromises will member states do?

I think in the long run, it is an important element. We need to complete banking union to be better prepared for the next crisis. Of course, today we are already much better prepared than we were 10 years ago. But these are additional elements that would make monetary union even more robust, more resilient. So common deposit insurance is one element. There are other elements which are controversial at the moment. But overall, one always has to remember that the glass is much

more than half full. I would say two-thirds, three-quarters of the things that were needed 10 years ago have happened. That makes monetary union much more stable. But it would be good to do the remaining elements like a European deposit insurance in order to be even better prepared. We don't know when the next crisis comes - not in the next few years, I think, but one day.

You've talked about controversial elements. What will happen to those - will people back down from them or will they be abandoned?

Well, again, as we are not in a crisis, it takes longer to come to a consensus. But I think we have shown again and again in the European Union and in the monetary union that we are able to come to an agreement after a while, even if the starting position is very controversial. And the elements are clear: common deposit insurance, macroeconomic stabilisation facility, one day even a [euro area] safe asset. The agenda is well defined. We have done a lot and we are working now on the remaining issues.

President Trump arrived here, he talked about a lot of things. Leaving, he talked about possible tariffs against Europe. How important is it, given the general context that we're seeing, that Europe does more to promote the euro on an international level?

As an economist, it's very clear. Trade wars are bad for growth and for all sides it's bad. So I hope that it can be avoided. I think it already had a negative impact on world growth because world trade is not growing very fast any more. Last year was the slowest growth in world trade in decades. And that, of course, means also it has a negative impact on growth rates in every country. So hopefully, this can be avoided. But it doesn't mean that we are entering a new crisis like 10 years ago. Trade wars are regrettable because they mean lower growth than what would be possible. But it doesn't mean automatically that the next crisis is around the corner.

But what does it mean for the euro? Does the euro need to start challenging the US as a reserve currency in the longer term, even if it takes 10 or 15 years?

We were talking about the trade side, and of course, there, the European Commission is in charge of our trade policies and they have made very clear that

they will take action if the US imposes tariffs. The international role of the euro goes beyond that. And I think that is becoming increasingly the focus of the debate in Europe. I think more people are now in favour of having a stronger role for the euro, which is partly also the answer to the United States. The current administration is withdrawing from multilateralism. Europe believes in multilateralism and one way to strengthen European sovereignty - there are many elements of that - but one element is the international role of the euro, and to strengthen that, I think we have to work exactly on the agenda that I talked about that is well-defined.

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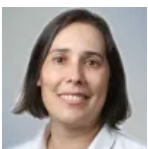


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