

Klaus Regling in interview with Bloomberg TV (June 2021)

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Interviews

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Transcript of interview with ESM Managing Director Klaus Regling

Bloomberg TV (Bloomberg Surveillance), 15 June 2021

Interviewer: Maria Tadeo

Bloomberg TV: Mr Regling, today you're tapping markets for the first time. This is the initial sale of Next Generation EU bonds. That's the key to the recovery fund in Europe. And I wonder, what kind of appetite are you predicting for this product?

Klaus Regling: I'm sure it will be a big success, the European Commission is starting this programme that could add up to €800 billion over the next five years, but they already got almost €100 billion from the markets to finance the SURE programme last year and early this year. All of that was very successful. So I'm sure this first big issue, €10 billion or more today will also be a success. The appetite of international investors around the world is there. We had an investor video conference, the European Commission, European Investment Bank and myself from the European Stability Mechanism earlier this week. And we could see that international investors are very happy with these bonds coming out of Europe.

You say international investors are happy with this debt coming out here. What is it that they want? What is it that they're looking for in this product? Is it a safe asset? Is it perhaps a yield that's not like a German

bund, that may actually give you something? What is it that they appeal to?

First, international investors want to diversify their assets like every investor, so they don't want to put everything into US dollars or other currencies. Also, they want a big jump in euros because confidence in the euro is very strong at the moment compared with what I saw 10 years ago. It's just very, very different. So people are happy with how Europe has reacted to the crisis, how the euro area is developing. The forecasts are good, the response to the pandemic was effective and appropriate. So confidence in Europe is there and indeed I would call it a safe asset. For bonds issued by the European Commission, the European Stability Mechanism or the EIB, investors can pick up about 30 basis points higher yield than German bunds. So all of that makes it a very attractive.

Just to wrap up on the issuance, you have to issue a lot of bonds this year. That's €800 billion euros from now until 2026. Do you worry, perhaps that the market is becoming a little bit too saturated? Because on top of this, you also have the national sovereign bonds. Can you find the right window for each product?

Yes. And of course, I'm not doing that - what's happening today is done by the European Commission. We have our own issuance programme. I don't expect any problems today or in the near future, we all talk to each other. We coordinate with the national debt offices. It is correct that debt issued by European sovereigns and institutions is much, much higher than last year or two years ago. This is true also for all countries around the world in response to Covid-19 or countries having to increase spending and fiscal deficits, and therefore have to issue more debt. But at the moment, also, as a result of the monetary policy of the ECB, the Fed and other central banks around the world, this is not a problem.

We've talked about the European economy in the past, we've seen vaccinations really pick up in the past few months. How bullish are you on this recovery?

When I look at the forecasts coming out from international institutions like the OECD or the European Commission, the IMF, but also what I see in the forecasts from market analysts, they all agree basically that from the second quarter of this year, so right now, we see a very strong recovery. The first quarter was still weak in some

countries, negative because of the lockdown and response to the third wave. But from now on, the expectation is that it is really strong.

And the ECB came out with a forecast last week. They expect 4.6% growth for the euro area this year, 4.7% next year. That would imply that by the first quarter of next year, the euro area GDP would be back to the December 2019 level, just before Covid-19 hit all of us. Of course, there are risks, but the risks are balanced, there are upside risks, it could be stronger depending on accumulated savings being spent even faster.

There are downside risks coming from new Covid variants. And your programme a few minutes ago talked about the United Kingdom postponing the lifting of the lockdown by another month. And there is unfortunately a reason for that. So these are risks which exist. But the baseline scenario is very strong in all the forecasts that I see.

And just a final question, how much do you worry about inflation? Today of course is the new auction that's hitting the market. We're talking about Next Generation EU, but if you're an investor, should you worry about inflation, especially if you're in the fixed income space?

There's a lot of talk about that. And it's good to remember that central banks around the world, including in Europe, have been working very hard to bring inflation up. And I think that we will see that in the next two years or so in the US. Maybe one should need to worry a little bit more [in the US] than in Europe because there, the stimulus is very much focused on the demand side, very much this year. In Europe, our economic support programmes like Next Generation, are designed very differently. Money will be spent over the next four years and the money will be used not only to stimulate demand, but also to strengthen the supply side of the economy. And therefore, I think inflation worries are much smaller in Europe than they are in the US, where we know that some prominent economists are actually quite worried. But that's not the situation in Europe.

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