

Excerpts from Klaus Regling's interview with Nikkei (Japan)

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Interviews

**Excerpts from an interview with Klaus Regling, ESM Managing Director
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Interview conducted on 22 February 2018 in Tokyo

Interviewers: Mari Ishibashi, Masayuki Yuda, Mikio Sugeno

On the European economy:

“Now the European economy is in good shape. With 2.5% growth is actually quite high. In the 4th quarter of 2017 it was actually 2.7%, which is high.”

“We have to be aware that this high growth performance will not last for very long. We expect that this year and next year growth will still be above 2% which is good. But capacity constraints are becoming visible in some countries.”

“One has to prepare for a slowdown. Not for a crisis, but for a normal cyclical slowdown.”

Prominent risks surrounding the market:

“We are not concerned with imminent problems. But of course, there are always risks. The political risks globally may be the conflicts with North Korea or in the Middle East.

When talking about political risks some people talk about elections. I am not so much concerned. We live in democracies and elections are very much part of democracy.

Whether the market is overpriced:

“For a long time we saw very little volatility. Recently we see more volatility. It shows that some corrections may be justified. But it’s not my job to predicts stock market developments.”

On the effect of the Fed’s rate-hike phase on other countries:

“The majority on the market expects three more steps this year.”

“If the Fed follows the expectation market reactions should be OK.

“I think everything will be normal.”

On the effect of the Fed’s rate-hike phase on emerging countries:

“Those have to be careful who have debt in foreign currencies and who have sizable current account deficits, and therefore continuously need inflow of foreign capital.”

“Monetary policy is now in a tightening mode. That will make the central banks’ task more difficult.”

“Emerging countries will be affected when interest rates go up. They will even more be affected if liquidity dries up, which I don’t see at the moment.”

On Greece:

“I don’t expect another ESM programme for Greece.”

“Competitiveness has returned, exports are having a good effect on the current account balance.”

“The aim is now to strengthen the potential growth rate of Greece.”

“Greece has issued bonds on three occasions. This is the normal process we follow on other countries. At the end of the program countries are supposed to be able to return to the bond market.”

“Potential additional debt relief for Greece is a different story.”

“If the euro area finance ministers come to conclusion that Greek debt sustainability requires additional debt relief, the euro area is prepared to do that.”

“That assessment will be made in the next few months.”

On EU decisions and the effects of the German political situation:

“There is a summit of the euro area scheduled in June.”

“I expect that there will be a new government by June. Otherwise there will be delay. That does not lead to a crisis, but I think it would be good to have clarity in June.”

Transforming ESM into an ‘EMF’:

“It’s important that ESM can play a role in completing Banking Union by providing the backstop to the Single Resolution Fund. We are preparing for the ESM to fulfill that role in the future crisis programme.

“We don’t expect that a crisis will happen anytime soon, but one day it will happen again and the euro area should then be prepared.”

“The rescue funds have so far been mostly in charge of financing. Recently we have grown into the role of participating in the programme design and in the monitoring. But that was not the initial mandate.”

On Asian investors:

“When I look at all the ESM bonds outstanding, it’s about €270 billion. ESM investors from Asia have around 15%.”

“Of course, we are always happy to have more investors from Asia.”

“Some Asian investors who have left the euro during the crisis are now coming back. They are not only buying ESM bonds but also bonds in all European countries.”

“Europe in general offers many opportunities.”

On foreign denominated ESM bonds:

“We issued our first US dollar bond last year in order to broaden our investor base.”

“Institutionally and legally, we could also issue in another currencies.”

“That may happen one day but at the moment we have no plans.”

“Yuan and yen are possibilities but also Swiss franc or British pound.”

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