

## Transcript of interview with ESM Managing Director Klaus Regling

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*Channel NewsAsia: Mr Regling, welcome to the studio, it's great to be chatting with you today. People are very concerned about the rocky start to 2016, I think the OECD just today made reference to that. What position is Europe in to weather this economic headwind that we're facing?*

Klaus Regling: I think we see an interesting difference compared to the last few years, when often Europe was the source of uncertainty and instability. I think in Europe basically we have done our homework in many areas. Countries that have lost market access have done their homework, have improved their fundamentals, eliminated imbalances. So they are back on the market – countries like Ireland, Portugal, also Spain is doing well. So the euro crisis is to a large extent behind us, and we see solid growth, not fantastic, but solid growth. Even with the OECD revising downward a bit, the IMF revised up a bit 2-3 weeks ago, so we expect growth between 1.5% and 2% this year and next year. And – given our potential growth rate, and the poor demographic trends that we have unfortunately in Europe – that's not bad, we are closing our output gap, so we see more stability in Europe. But we are a bit concerned what's happening around us in the rest of the world.

*And here we are, five years on, since the European sovereign debt crisis and the economic meltdown, and of course the ESM and EFSF were instrumental in bridging the liquidity crisis there. How confident are you that the whole programme is going to remain on track? Because if you take a look at what's unfolding on the markets, both debt and also equity, it seems to be telling us something else.*

I think that part is behind us, with the exception of Greece, which still draws on ESM resources. They need exceptional, emergency financing, they don't have access to the markets. But the other countries – there were four other countries that required emergency financing from the institutions that I manage (the EFSF and ESM) – they are success cases by now. Ireland and Spain have the highest growth rates in Europe, employment is growing, unemployment rates are coming down from high levels. There we see a lot of improvement, so those countries that had problems in the past are on a good track. In other countries growth is also stable, so Europe as a whole is not fantastic, but it seems to be a solid place compared to the rest of the world.

*Mr Regling, you are an expert when it comes to economics, so in your opinion, is it possible or likely that we may see a revisit of the European crisis, because if you look at what's happened, Germany, the biggest European economy, is floating the idea of potential bank bail-ins. Now, we saw that happen in Cyprus, everyone said that it was a one-off that would never happen, that would set a very negative precedent. If that gains any more traction, how vulnerable is Europe if they ever implement such a thing?*

No, well that is not a German idea. We started the banking union a year and a half ago. And as part of that, we have a European supervisor, a Single Resolution Board, and as part of that, we also have a new resolution regime, and that includes bail-in. It will become a normal feature – this is in place legally since January this year. We have seen the first episodes of that in Portugal and Italy. It seems the markets have not fully priced in this new situation. The markets shouldn't have been surprised.

So they are getting used to it now. It's important they know where they stand in the hierarchy of different creditors. Bail-in in the future will very much be a feature of bank resolution when public money is needed.

*I want to talk with you about a broader issue, and of course that's the ambitious project of the European Union and the eurozone. It's a very difficult and complicated thing to put together, and clearly from the lessons we've learned in the European debt crisis, it's very often hard to keep everyone together. We heard the news earlier about Britain negotiating with the Europeans about them staying in the European Union. If they do leave, what sort of precedent is that going to set?*

We don't want to see that happen, because it would weaken the European Union politically, clearly the size would be reduced. But economically, I think it's mainly a problem for the United Kingdom, because they would be separating from the EU, their largest trading partner. There would be some kind of relationship later on, but we don't know what it would look like. It would really damage the UK, because foreign investors often go to the UK to get access to the single market. If that is no longer guaranteed, some of this foreign direct investment will go directly to the continent. So as I said, politically, nobody wants this to happen in the other EU countries, but economically and financially, I think it will mainly hurt the UK.

*As you know Mr Regling, it's always complicated, there is a saying that a marriage between two people is demanding, a congregation of 19 countries in the eurozone is very difficult.*

Well, that's the eurozone. Life is often not easy, because these are 19 democracies, but the EU is not part of the euro area, obviously. It's part of the 28 EU countries. Therefore I believe that the impact on the euro area as such will be rather limited, but again, I don't want to see it happen.