

Transcript of interview with Klaus Regling, ESM Managing Director

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Interviewers: Tom Keene, Francine Lacqua, Stephen King

Bloomberg TV: The surprise to me is that no-one can define federalism within the European Union. After Strasbourg, after Bratislava, what do you need to get a better definition of what federalism means as the EU speaks to the United Kingdom?

Klaus Regling: The EU has been working together, moving towards more integration for more than 60 years. So we have come a long way. Certain countries – the 19 countries that share the euro – are more integrated than the others. We are 28 in the EU today; when the UK leaves, it’s 27. It’s a big number, it makes life not easy, but still, it works. We have problems, but overall, the EU is working and the euro area is working better than people sometimes realize. I think that markets realize it too, by the way, otherwise our interest rates wouldn’t be so low in the markets. In the media, what I read sometimes is that there is great scepticism about Europe, about the euro area. I’ve seen that for many years, and I think some of that is based on wrong facts.

I did a chart earlier of sterling back to 5 dollars per pound in 1934, 4 dollars per pound during World War II, and now we break back down under 1.27 per pound early this morning. Currency markets are speaking – who will prime minister May speak to if she attempts to Brexit? Will she speak to Merkel, or Brussels?

Brussels is in charge of negotiating with the UK the follow-up arrangement. Once the UK has triggered the procedure, it’s up to them. The British prime minister said they will do that by March next year. Then it’s up to Brussels in a broad sense, but Brussels always means the European Commission, the member states who meet in Brussels in the Council, Council president Tusk, they work together to do that with the European Parliament. So it’s not one person, not one institution. The EU is a group of member states and institutions. One has to realize that this makes life complicated, but in the end, the Council that represents member states, the European Commission, and the European Parliament – they all have to do this together and they will do it together.

Mr Regling, what is the level of angst, of concern? We have major elections in the EU, and it’s difficult to know which way these elections will swing – I’m thinking of Germany, France, the referendum in Italy. And that plays back to the federalism or not, in the EU. Are we at an inflection point for the EU?

No, I don’t see that. We are all living happily in democracies. Democracy means that elections take place from time to time, also in this country. I’m in New York at the moment; we also have elections. So that’s not a surprise at all. Sometimes governments change – we see that, of course, it’s part of democracy. But we know how to deal with that, this is nothing new. And I don’t see an inflection point at all. It’s regrettable that the UK decided to leave, but I don’t see any other case following. And the EU is a big success story. We’ve had 70 years of peace, unprecedented wealth and income developments. It’s working much better than it’s described in the media. We are often described as having only problems, only crisis. And we have had crisis, of course.

Mr Regling, you talk about the success of the EU and the Eurozone, but I want to just pick up on one specific issue; it partly relates to the Italian referendum coming up later in the year. If you look at Italian living standards in 1999, they were about 90% of those in Germany. In 2015 they were 75% of those in Germany. Italy has seen no growth whatsoever over the last 15, 16 years. So in what sense could you say to Italy that it's really been a success within the eurozone?

Well, I talked about the EU and the euro area as a whole. And there the results are very clear – on average, the standard of living in the EU, in the euro area, is developing at the same speed as in the US. At least before the crisis for 25 years, and also now. On a per capita basis, growth in the euro area is even higher than in the US this year, according to the latest IMF forecast. Not surprising, because it averages out; sometimes GDP per capita is higher in the US, sometimes it's higher in the euro area, on average it's the same. And that's not surprising because it's dictated by technological progress. Now when you look at individual countries, of course you can discover some problems. Greece is the most extreme – I don't know if you want to talk about that. But Italy, you're right; the numbers are clear. They have been falling behind, but this is not because of the EU or the euro area, because there are many other countries in the euro area that are doing very, very well. Otherwise the average wouldn't be the same as in the US. So it depends on domestic policies, very clearly.

We see the countries that are successful in the euro area are the ones that implemented reforms in the last few years. Germany was the sick man of Europe 15 years ago. They did their reforms 10, 12 years ago, that's why they are doing well now. Spain and Ireland have the highest growth rates today after going through a deep crisis; they put in place the right policies, it's not a secret.

Within your Germany, and the heritage of Konrad Adenauer, Helmut Kohl, and we go on to Chancellor Merkel. What do you need to see in Germany to maintain a courage and a will to keep your Europe together?

On the economic side, Germany has done the reforms, otherwise they wouldn't be doing so well right now. For the EU and the euro area, one has to see that a lot has happened in the last 5-6 years. We have moved more towards political union, more towards fiscal union than ever before, as a result of the crisis. One example is the institution that I'm managing – the European Stability Mechanism. We have disbursed in the last five years €260 billion to the five countries in the euro area that went through trouble. The banking system has improved – it's not perfect, there are some individual problems, but as a whole, the European banks are much stronger today. We have the Banking Union, a common supervisor. Many things have happened, and we will continue to work on keeping everything together, despite all the angst that is out there sometimes.

Mr Regling, how much progress do you think the ESM has done in its work on short-term debt-relief for Greece?

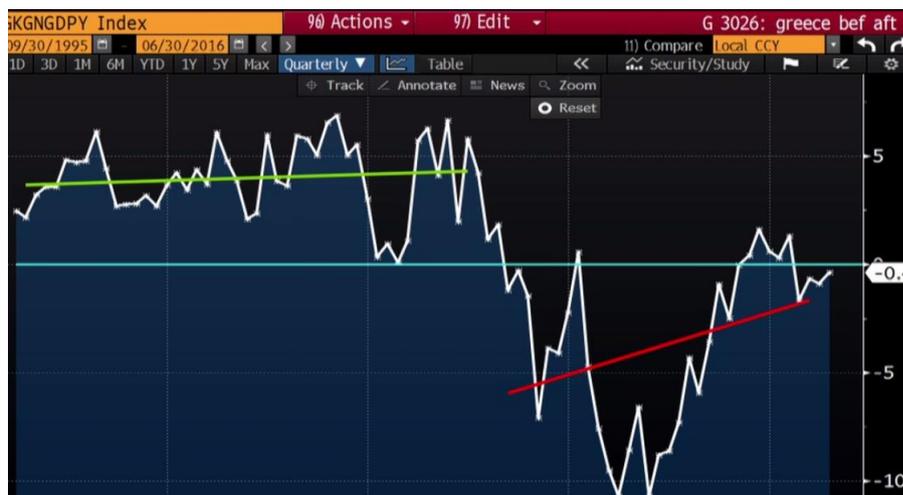
Let me first say that overall, we are now in existence for about five years. As I mentioned, we have disbursed €262 billion to five countries in the euro area. That's about 3 times as much as the IMF disbursed in the same 5-year period globally. That's actually one strong indication of the solidarity that the euro area is providing to countries that are or were in trouble and had to go through very painful reforms. Four of the five countries exited their programmes, they are becoming success cases, with strong growth and unemployment falling strongly. And Ireland, for example, where unemployment is lower than it was before the crisis. Greece is the remaining case that is difficult, but also Greece is making progress. As you remember, early last year Greece went through a different phase – they had a new government that tried to move backwards, implement new

strategies to get out of the crisis. It didn't work, it failed. Greece went back into recession. But since last August we are back in a cooperative phase. We have disbursed under the third Greek programme - which amounts up to €86 billion - already €29 billion. As always, as we do it, as the IMF does it around the world, we only disburse when conditionality is in place, reforms must be implemented and that is happening.

The outstanding point is that the IMF is asking for debt relief in the medium term, i.e. 2018, and the EU for the moment, the member countries, have been reluctant to sign up to it. Is that in jeopardy because of the German election coming up next year?

I don't think it's linked to the German elections; that's only next year. There was an intense debate earlier this year in the Eurogroup – the 19 euro area finance ministers, with the IMF in the room. And we found an agreement in May that we would work on short-term debt measures immediately. We are doing that at the ESM, mainly to reduce the interest vulnerability of Greece in the future, and that we would look later on how much additional debt relief is really needed. And here one needs to understand that Greece is different from other countries the IMF deals with around the world. The framework the IMF uses around the world is a very good framework, but in Europe it needs to be adapted because we are there – the ESM.

I want to congratulate you on spreads narrowing. We've really seen the fixed income markets voice your optimism about Greece. Here's the economic growth in Greece and it shows the constructive nature, the trend of Greece's economic growth.



Mr Regling, what do you need from the elites of Greece to sustain this burgeoning confidence, to get back to the growth that we saw before the crisis?

I think the outlook is not bad, and we saw the IMF revising up the growth figures for Greece in the last two days. They expect now for next year growth of 2.8% in Greece, so they are getting out of the problems. Of course, the condition is very clear, they must continue to implement the agreed programme. It was agreed last year, in August, so we are one-third through, two more years to go. We will help them with more money to get through that phase, and if they implement the agreed reforms – it's always a bit difficult, with delays, hiccups because not everybody in the Greek government is fully behind it; the prime minister is behind it, the finance minister, but there's not full ownership, so that's what I'm missing a little bit.