

Transcript of interview with Klaus Regling, ESM Managing Director

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Interviewers: Francine Lacqua, Tom Keene

Bloomberg: Well we’re now lucky to be joined by Klaus Regling, he’s the European Stability Mechanism Managing Director. Mr. Regling, thank you so much for speaking to us. How do you see Greece unfolding? When will we actually have, if not a final resolution, a near-final resolution on Greece?

Klaus Regling: Well good morning. Greece of course is an ongoing story. Greece has been receiving loans from its European partners and the IMF since 2010. The ESM, we have already disbursed around €174 billion to Greece. We are now on the third programme, which is up to €86 billion as you mentioned. We have already disbursed in this programme €31 billion and we are now in the middle, we have another fifteen months to go till August next year, so we are right in the middle, we are talking about one, the next disbursement from the ESM; and importantly the IMF is looking at the situation. We are hoping that there will be an IMF programme in parallel with the ongoing ESM programme.

Bloomberg: Mr. Regling, what is the biggest financial stability risk to the Eurozone right now? I’m thinking of Italian banks, we’re looking at Greek banks, we’re looking at Brexit. Is there something that you worry the most about?

Klaus Regling: No, there are risks, you’re right, Brexit is not really a risk for the euro area, obviously the UK is a member of the EU right now but not member of the euro area, so for the euro area that will have a minor impact. You mentioned Italian banks, Greek banks, but it’s important to realise there are some issues here with a handful of Italian banks but it’s not the Italian banking system as such that is in trouble, that’s very different from where we were five, six years ago—Europe has come a long way. There are isolated risks, there are also political risks—which markets of course are very nervous about—elections are always important events in a democracy but they happen. We know some elections have gone very well recently, like in the Netherlands, despite all the worries we had earlier. There were presidential elections in Austria a few months ago, where a strong, pro-European candidate won. I’m quite optimistic about the French elections next Sunday and then the second round two weeks later, but of course the markets have to price in these risks.

Bloomberg: Mr. Regling, will your fund—and this is probably the most controversial thing in Europe, Tom—but will your fund inevitably at some point issue eurobonds? And will that lead to the economic union a lot of people want to see? A lot of people don’t want to see it, but actually you could see a smaller economic club.

Klaus Regling: Well that’s several questions in one. On eurobonds, in a way what the ESM has been doing the last few years is to issue eurobonds because we issue on behalf of all euro area countries. But often “eurobonds” are meant in a different way, they are defined differently and that’s where the controversy starts. I don’t expect that in the near future we will have a situation where one

institution will issue bonds on behalf of all the euro area countries, that's not in the cards but it's also not necessary for the good functioning of EMU.

Bloomberg: Dr. Regling, Joe Stiglitz, among others, focuses on the little “g” in economics—the rate of economic growth. Our Taylor Riggs just reported on terrific auto sales in Europe. Is the big surprise here, is the gift that's going to keep on giving for you and the other elites of Europe going to be renewed economic growth that will save the day for ESM and, for that matter, save the day for the ECB?

Klaus Regling: I think Europe has been on a better track than often recognised. We are in 2017, the fifth year of positive growth, and actually the last three years, growth in the euro area has been above potential and, if I take out the differences in demographic trends between Europe and the U.S., the GDP per capita growth in Europe is again exactly at the same speed as GDP per capita growth in the U.S. I think that's slowly sinking in, I've been looking at it for quite a while and I'm not surprised. We're happy that the IMF revised up the growth rates also in Europe, that's good, so we're happy about that. There are other positive developments in Europe that are not rightly recognised, so GDP per capita growth, we have the best income distribution in Europe in the world so many more people actually benefit from real growth than in let's say the United States or in China. And our labour market is a lot better than you might think because the employment rate is a lot higher than it was ten years ago, while participation rate has been dropping in the U.S. So there is a lot of good news and I think this year it's all coming together.

Bloomberg: Well it's been a real shift. Klaus Regling, thank you so much from Washington, this in advance of the World Bank and IMF meetings, we see them this week and he is with the European Stability Mechanism.

Bloomberg: [How will things proceed in Greece?]

Klaus Regling: We are now at a phase where we have to decide on our next disbursement from the ESM. The IMF is looking at the possibility of having a programme in parallel. And on the debt side, the first thing to remember is that a lot of debt relief has been granted to Greece. The Greek budget, because of debt relief, has tremendous savings every year: almost € 10 billion which is 6% of Greek GDP. The Eurogroup, which are the 19 finance ministers of the Euro area, decided in 2015 already what to do over the next 3 years. They made it very clear that there could be short-term debt relief measures. We are actually implementing them right now from the ESM side. And then at the end of the programme in summer 2018 there can be medium-term debt measures. They were specified in the statement from the Eurogroup, but not decided. So that can happen next year, if there is a need and if the reforms continue. And importantly, there is a third element, the long-term element which I think for Greece is very important because we are looking at a very long time frame. The Euro area has said that even in the long run additional debt relief is possible, if needed. And I think that is a very useful commitment because uncertainty – looking at a 30 year time horizon – is very high.

Bloomberg: Do you actually believe that the French elections could cause complications if a candidate who is not as pro-European as Emmanuel Macron wins. Does that mean that Germany is weakened in the axis and that further bail-outs are much more difficult to agree on?

Klaus Regling: There has been tremendous support and solidarity for five Euro area countries in the last few years as a result of the crisis. Greece is the last of these five countries where money is still needed and maybe debt relief measures could become possible later next year. I don't expect any problems in the euro area to live up to those commitments. I actually look forward to the next French government and I am sure that they will cooperate well with the other Euro area countries.

We have to see that in a crisis we were able to live up to what is needed. Sometimes it takes a bit longer than one would hope as an economist but knowing that 19 democracies have to find a consensus that can take a bit of time. But we have demonstrated again and again that we are able to do it.

Bloomberg: This is the problem for international investors that they find that the Europeans are sometimes slow. You seem to believe that the bail-out regimes are without a doubt a success. If something ugly were to happen can you shorten the amount of time it takes to deal with that problem?

Klaus Regling: A little bit, yes. Because the ESM, my institution, is up and running. So when the crisis started seven years ago that had to be decided first and it took a while to create a new institution. So that part is done and that will help to speed up the process. But otherwise one has to be realistic. 19 democracies, when they have to deal with a big problem, they need national debates, they have to discuss it with their parliaments, with public opinion and then they have to find a way to compromise on many things. It takes a while in democracies, this is unavoidable. So a little bit better, yes, a bit faster yes, because we have these institutions, and not only the ESM and we are used now what to do. But don't expect miracles here, democracy takes some time.