

Excerpts of interview with Klaus Regling, ESM Managing Director

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- Markets don't like uncertainty and the upcoming elections in Europe create uncertainty. As there is the possibility of surprises and unlikely outcomes, markets tend to be nervous.
- It is not very likely that there is a fundamental change of policies in Germany. In Germany as well as France the most likely election outcome are governments that are in favour of the EU.
- After the referendum on Brexit, I do not see an increase in the number of people fundamentally questioning the unity of the EU. According to polls conducted after the referendum, support for the EU has gone up significantly in all EU countries. I think the reason is that people see how difficult it is to leave the EU and how economically costly it can be. That has strengthened the support for the EU.
- After the referendum, it is now up to UK government to decide how exactly it wants to leave. With her speech this week, Prime Minister May has provided some clarity. I regret that UK has decided to leave the EU. But I think it will be economically costly mostly for the UK, not for the EU.
- After Brexit, there will be a new relationship between UK and Europe. There will be negotiations between the two partners and this will take years. There will be a transition period and that will create uncertainty for the markets. Investors don't like uncertainty. In addition, foreign direct investment in the UK will be reduced. The rest of the EU could benefit from this because some investors will rather invest in the rest of the EU rather than the UK.
- The question is whether Brexit will affect London as a financial hub. I definitely think it will. London will probably continue to be a large financial centre, it will certainly not disappear. But I believe that there will be a shift to other cities in the EU. So the financial centre in London is likely to get smaller.
- The European experience shows that many things have to be in place before a currency union can work. We have had 50 years of economic and financial integration before the euro was created. The ASEAN countries also have economic integration but it is more recent and less deep than the EU. So I think Asia should continue the economic and financial integration which will lead to further growth and raise the living standards. It will be a long time before Asian countries are ready to consider setting up a similar currency union. I can only encourage Asian countries to continue along the integration path.
- We set up the ESM because the ESM is able to give much more money for loans to programme countries in the euro area than IMF. Our approach of providing rescue loans in exchange for the implementation of economic reforms has worked very well in Portugal, Ireland, Spain and Cyprus. Greece is a special case and takes more time but our approach is also working there.
- The ESM finances its rescue loans by issuing bonds that are sold to investors around the world. Asia has always been a very important buyer of our bonds, the region is the biggest

buyer of our bonds outside of Europe. The reason is that we offer very secure and safe bonds with a slightly more attractive yield than the safest government bonds. At the moment, we only issue in euro, but towards the end of the year we plan a US dollar bond for the first time. This will enlarge our investor base because there are some investors that only buy bonds issued in dollars.