

Klaus Regling in interview with CNBC

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Interviews

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Transcript of interview with ESM Managing Director Klaus Regling

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Interviewer: Joumana Bercetche

(On the need for fiscal stimulus in Europe)

I think one has to look at the economic situation first before one can have a judgment on the fiscal policy, and we do have the most recent IMF forecasts about economic outlook; that was presented here in Davos on Monday and it looks not bad. So I certainly don't see the need for fiscal impulse because we are close to a recession or anything like that. We are not.

But Germany and Italy got dangerously close to getting into a technical recession this year.

Yes, but the forecast indicates that they are getting out of that. And Italy and Germany were actually revised up in many forecasts for 2020 and 2021. And that's exactly the point. Three months ago, many people, particularly the markets, thought there might be a recession or some countries in Europe might be moving towards a recession. If the most recent forecasts are correct, this stage is not there.

Forgive me if I'm wrong, but isn't the goal here to make growth as high as possible rather than to just avoid a recession? If you look at the eurozone economy, it's still only growing at around 1 percent. Surely to get it from 1

percent to 3 percent, you need that extra ammunition.

I think it would be totally unrealistic to expect a growth rate of 3 percent. The US is not having a growth rate of 3 percent. And there's one important misperception, something that many people always forget. Even if the headline growth in Europe is half a percent below the US in per capita terms, it's identical because demographic developments are so different. The population in the US grows by 0.5 or 0.75% per year. In Europe, it's almost stagnation. When I look at longer-term averages and I look at some recent IMF data, let's say from 2017 to 2021, the growth rate on a per capita basis is identical. So there's not a question of catching up. I don't disagree that European countries need to invest more in infrastructure, on preventing climate change, on research. But that's for very different reasons: to strengthen the long-term growth potential, not because there is any risk of a recession and because there needs to be short-term demand management. I don't think that is appropriate right now.

Talking about long-term investments, only recently the EU announced a new green deal that would entail one trillion euros worth of investment, both public and private. How additive do you think that's going to be to the economy overall?

Well, I think a lot of that will be in addition. To some extent, it will be redirecting, which also is good because one should always focus on the priorities. And clearly in Europe, governments, but also the population believe in the large majority that the new priority is to do something against climate change. We see the risks that are out there and we know that's the damage if we don't do anything could be huge.

There has been a lot of discussion about the joint eurozone budget. But it seems to me that one area that every single European country can agree on is green investment. That seems to be the common denominator for all of these countries. Do you think that that is the way that we're going to move forward on the European project and that it's going to be more focused on green?

Yes, I think that's very clear. I just listened to the president of the European Commission in Davos 10 minutes ago and she talked about that. Of course, this is the new priority. It doesn't mean that all the other things are forgotten. But there is

a new priority and I think that's the right one. In terms of budgetary implications, we are in Europe in the process of agreeing on the next seven-year framework how the European budget will be created. And in that context, these questions will be addressed.

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