Klaus Regling in interview with Bloomberg Surveillance

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Transcript of interview with ESM Managing Director Klaus Regling

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Interviewers: Matt Miller and Kailey Leinz

Bloomberg TV: One of the questions we've been hearing from investors is when is Europe going to come out with more fiscal stimulus, which is really necessary. Do you agree?

Klaus Regling: No. And let me say that when governments and international European institutions all met in Washington last week at the IMF spring meeting in a virtual way, there were no such demands. They come from some people in the markets and from some journalists, because when you look at what Europe has been doing, it's very, very impressive. And that was recognised by the IMF. The IMF revised up the growth numbers for Europe for this year, for instance, in its most recent world economic outlook. So there was a lot of praise for what Europe has been doing. And some like to compare the numbers in Europe to the US, but they are comparing apples and pears, I think, because the fiscal deficit, that's true, is jumping up a lot more in the US, which, by the way, also means that the debt levels in the US are higher than in almost all European countries now. But what is not taken into account ...

Well, in the US it was a lot faster, Klaus. I mean, we just passed last month $1.9 trillion in stimulus.

I'm sorry, but that's only part of the story. I was going to tell you about the other part of the story. The US started in 2019 before the pandemic already with a huge deficit. So they had to jump to a much higher level than Europe in order to have the same kind of fiscal stimulus. And in addition, what Europe is doing a lot more than the US is public government guarantees for bank lending, for instance, for corporates. In Europe last year, it was 17% of GDP. In the US it was only 7.5% of GDP. This does not show up in deficit numbers, but it can over time. And it does stimulate bank lending and economic activity. So one should be very careful comparing these numbers and on top of that, you know there are really very serious economists in the US, who think the US government is doing too much.

Yes, absolutely. And you're right about the bank guarantees, and the loan programmes seem a lot stronger. There are still questions from serious economists, from market participants and journalists alike about the sloth of the European Union in terms of moving on this €750 billion recovery package. I mean, it's not even expected to spend a dime until this summer, and then, if my reporting is correct, only 13% of the package. That all is at peril because of the German constitutional challenge to this. Why can't the EU move faster when necessary?

People like you like to complain about the slow movements in Europe. But we are not the United States of Europe. We are in the euro area 19, and in the EU 27 sovereign states. So they take a bit more time. The €750 billion package that you mentioned, which indeed is a key response from Europe to the pandemic, it is on time. There was never an expectation that money would flow before mid-2021. So nothing to complain about. From an economic perspective, it would have been better for it to flow earlier. That's true. But we knew that would not be possible because it has to be ratified in 27 parliaments. But the way it’s set up is very important. Unlike the US stimulus so far, which is all geared to strengthening demand, what we are doing in Europe, we strengthen the supply side of the economy with this €750 billion package. So the long-term effect will be much more positive than what I see elsewhere.

So you don't fear that if there is a delay like in Germany that Matt speaks about, that it's going to hit the economy too late and therefore not have the desired effect?

Well, it was never designed to stimulate demand like what you see in the US. That was not the character of this package, but it has the advantage that it will strengthen the growth potential, and that you don't reach when you just strengthen domestic demand by sending cheques to all households.

There is a new element in that we don't know when the German Constitutional Court will act. That is an uncertainty. Absolutely. And that's new. The experience that I have had personally from the ESM 10 years ago, was that also then the German Constitutional Court stopped the process for a few months and then they formulated a few conditions which had to be met, and there had to be clarifications on particular what are the overall obligations for the German budget. And I wouldn't be surprised if we see something similar. It did not stop the ESM from playing its role 10 years ago and that would still be in line with the timing that was envisaged for the Next Generation EU.

You mentioned the difference in debt levels between European countries and here in the US where I'm speaking to you from. Are there debt levels anywhere that are concerning to you? And do you think there should be a return to the debt and deficit rules in the EU or that those rules should be revised?

This is a difficult question and one that economists think a lot about these days, because on the one hand, interest rates are probably permanently lower than what we used to have 10, 20, or 30 years ago. They can go up and I expect them to go up from the current level, but they will probably not, on average, return to where they were 20, 30 years ago. And that means the debt-carrying capacity of governments is higher today than what we thought a few decades ago. So in that sense, to have higher debt levels is not concerning. However, there are, of course, limits. And we see that also in other countries around the world that don't have a reserve currency that can be created easily, their debt levels again reach risky areas much faster. So there will be limits. And it's not clear where they are exactly. So on the one hand, yes, higher debt levels are OK. But they have been jumping a lot and this needs to be controlled over the next few years.

Is the importance of the renminbi changing in the global system? It's gaining importance versus other currencies like the euro. What does this mean for the euro?

Well, I would look at it in the overall context: where is the world's monetary system moving to. We know that in the last 70 years, there was one dominant currency and not much else. Then since 1999, we have the euro, which since its creation has been clearly the number two in the international monetary system. And I think the renminbi, coming from a much lower level, is trying very hard to catch up. The Chinese government wants to strengthen the international role of the renminbi. So I see the world economy moving towards a more multi-polar system with, at the moment, three currencies. There may be others in the long term, if countries like Brazil have better economic developments. But at the moment, there would be three, of course, with the clear leading currency still the US dollar. We never try to replace the dollar with the euro, but to have a system with more equal currencies I think would be good for the world economy, because we saw in the 1980s in Latin America and the 1990s in Asia that reliance on only one currency can lead to problems. And that was one major reason for the Latin American debt crisis and the Asian crisis in the late 1990s.

So I think for the system as a whole, this is a healthy development and it will be very interesting to watch not only how the euro will be doing, but also how the Chinese currency, given the weight of the Chinese economy and the policy in China to push the role of the renminbi.

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