

Transcript of interview, Bloomberg Markets Asia, Hong Kong

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Interviews

ESM

Transcript of interview with Klaus Regling, ESM Managing Director

Bloomberg TV (Bloomberg Markets Asia in Hong Kong), 16 January 2017

Interviewer: Steve Engle

Bloomberg: There is a lot of headline noise about what is happening in Europe. Euroscepticism is what they've been calling it. Do you share those feelings? And what needs to be done to bolster the EU?

Klaus Regling: I think that's absolutely right. There's a lot of noise. Some of it is justified, but I think it also ignores some of the positive things we see happening in Europe. Of course there's uncertainty; Brexit is one, although economically, I think it will be mainly a burden for the UK. We have a number of elections coming up in the biggest member states of the EU. But elections are not necessarily bad – they add to the uncertainties, that's correct. But for instance, what I see in France and Germany happening –of course you never know until it happens – the most likely scenario is that we will get a more reform-minded government in France, and in Germany, very likely a continuation of policies. So uncertainty yes, but not necessarily something that ends in a problem.

Also, I think people ignore certain very positive developments in Europe. Growth has been above potential now for three years. And the headline growth may always look a bit low, but when you take into account demographic trends in Europe, which are poor, on a per capita basis, growth in Europe again is like in the United States. Actually, the headline growth this year was even higher. Also, let me add a point

that's not widely recognized: income distribution in Europe is a lot better than anywhere else in the world. Which is very important, because it means even if growth rates are low, in Europe 80% of households have seen real income growth in the last decades. In the US, it's only 10-20%.

How much of a factor is what they're describing now as a hard Brexit, as Theresa May says. How much of a factor is that to the European Union? They will no longer be a part of the Common Market. They had never been part of the Monetary Union, but is this better that they have a hard Brexit rather than a slow one?

It's up to the British government to decide what to do. It looks like it may be a hard Brexit, but we are waiting for a very clear explanation from the prime minister. It seems the most likely because if the UK does not want to accept the freedoms we have in the Single Market (such as free movement of people), if they reject the authority of the European Court of Justice, that would then lead to a hard Brexit. But it's their decision, so I don't want to anticipate that. I think economically, in the long run, it might be a real problem for the UK because it will reduce foreign direct investment, we see that already happening – that foreign investors go to the continent instead of the UK, or they look at it. There will be some shifts, also in financial services. Politically, it's very bad for the EU. So that's why I regret, like most people in the EU, the result of the referendum. But I think the economic costs will be mainly on the UK.

How are you going to get consensus within the remaining European nations on Greece - the second review of the latest Greek bailout? There are internal squabbles between the European Commission, the ECB, your mechanism, also of course the Bundestag in Germany. How are you going to find consensus?

This is the euro area; 19 countries are involved, and four institutions. There are some problems, but one should even that not over-interpret, because Greece is now in the middle of its third adjustment programme. We, the European Stability Mechanism, have already disbursed €31 billion in the context of this third current programme. Out of the [maximum amount of] €86 billion, we've disbursed €31 billion, so there has been progress. Now we are indeed not agreeing on everything among institutions with the Greek government, but one should not ignore that they have come a long way.

We were talking about the Greece bailout and whether the IMF is going to bow out or

participate. Of course, it's been a condition of the Germans that the IMF must be involved, but we heard also from the finance minister Wolfgang Schäuble that there must be an alternative if the IMF decides to back down or bow out. What would that mean for the European institutions that must then take it on themselves?

This in a way is a plan B. You're absolutely right, we have worked with the IMF through this crisis, which means for the last six years. We did it very successfully in a number of other cases, like Ireland, Portugal, Cyprus, where ESM money and IMF money went in parallel. And the IMF was there for the first two Greek packages. Now we are in the third one, we have no agreement yet with the IMF, we would like them to participate, because that's our setup, and I would very much prefer that this institutional setup, that was agreed at the beginning of the crisis, would continue until we bring this crisis to an end.

Do you think the fact that it's an election year in Germany, there would need to be approval from the Bundestag for any changes, and also, as Mr Schäuble said, to give more enforcement teeth to the institutions such as yours?

If there's a fundamental change in the programme, and to continue without the IMF would be a fundamental change, in the German situation that requires the vote of the Bundestag.

I know in October you said that you don't see Greece facing a debt problem for at least a decade. Yet one of the preconditions from the IMF is a cut?

That's one of the disagreements we have. Indeed the debt level in terms of GDP is relatively high for Greece, but the actual debt service payments are low, because Greece already received a lot of debt relief a few years ago. That's why they have for the next decade or so no real debt servicing problem, and that's why the Europeans have taken the view that it's good to have a commitment from the European partners that we do more when it is needed. While the IMF – much in line with its traditional framework – wants to take decisions earlier. And that's part of the disagreement we have not been able to solve.

When do you expect to unfreeze the short-term debt relief measures that were approved in December but then put on hold?

They have been unfrozen; they were blocked for a while when Greece decided to have extra pension payments. But that problem has been sorted out. So we at the ESM in this month, in January 2017 are starting to implement these short-term measures. Some can be done immediately or quickly; others need time – probably until the rest of the year to be fully implemented. To start doing that we need a few legally important decisions from our Board of Directors, but I expect that to happen in the next few days, and then we will do it in 2017.

Final question – I know it's across the pond, but Trump is inaugurated this Friday. How does this uncertainty play into what's happening in Europe?

It's a global uncertainty; I see globally this kind of backlash against globalisation, against cross-border cooperation. The Brexit vote I think was also in that mode. As an economist, I'm worried about that, because I see very clearly that trade, cross-border cooperation has helped tremendously to create today's prosperity over the last few decades, and to move backwards on that I think is not good for the economy or for anybody.

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