

Transcript of Klaus Regling's interview with CNBC Squawk Box

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Interviews

Transcript of interview with Klaus Regling, ESM Managing Director

CNBC Squawk Box, 20 June 2017

Interviewers: Geoff Cutmore and Karen Tso

CNBC: Do you think it is in the interests of the EU not to be adversarial in the Brexit talks, because it does want to send a message to the Italians, the Portuguese, and specifically the Greeks, that leaving the EU is not an option?

Klaus Regling: I think that's not the main point. The main point – and that's why I was not surprised by the positive tone – is that nobody wants to penalise the UK. We regret the Brexit, but it's in nobody's interest to penalise. I think the costs will be there anyway, so I don't think the EU has any interest in penalising. I don't see any other countries that will follow. The polls are very, very clear since the Brexit vote. The support for EU membership has gone up in all EU countries by 10 to 20 percentage points over the last months.

Why do you think that is?

I think it is becoming clearer to many what the advantages of being in the EU are. Because people see the problems that need to be tackled now in these Brexit negotiations – they are serious. They are really big and complicated. And I think it is becoming clearer to many why the European Commission in Brussels is there, doing many things that otherwise would have to be done at national level. So it's actually

an efficient solution that we often have in the EU, despite the bad reputation that Brussels often has.

Is it in anybody's interests, on either side, for us not to remain within the customs union? You, as a German economist, must very clearly know there are plenty of businesses in Germany that would like to continue selling into the UK without tariffs.

Yes, that's why I said in in the interests of both sides to come to good agreements.

But that appears to be off the table now, given the start of these negotiations?

It doesn't seem the most likely, but I wouldn't rule out that it may come back as a topic, because clearly it's in the interests of all sides to have good trade relations. There were trade relations between the UK and the continent before the EU existed, and there will be relations afterwards, and it makes a lot of sense to organise this in a mutually efficient way.

You were on the record saying that Brexit will hit the UK harder than the rest of Europe; is that still your position?

Economically, I have no doubt about that. I regret the Brexit; politically, it also weakens the EU. But economically, I think there's no comparison when you look at the trade flows, and what will happen to London. I think the economic cost is mainly on the UK, yes.

We're all scratching our heads over this concept of a hard vs soft Brexit. Do you think the scenarios are quite different economically depending on what type of negotiation takes place?

Yes, I think that's correct. If there's a clash in the end, if there's no agreement, then I think the costs will go up for both sides. You asked if the costs are higher for the UK – yes, but there are costs for both sides. And if there's not a good agreement, the costs will go up for both sides. So that's why I think it's positive that the process started yesterday, that there's agreement on the timetable and priorities, which are indeed the right priorities – citizens' rights – this affects more than four million people, they need some certainty. But then there's a long, long agenda after that, that will determine our future relations, and I hope very much that these relations

will be very good, in the interests of both sides.

How close do you think we are to any kind of meaningful resolution, a sort of Macron plan that would help with some restructuring and would move Greece beyond this latest payment, which effectively, purely deals with the debt servicing costs and doesn't really take us very far forward in terms of helping the Greek people?

I would not belittle what the Eurogroup decided last week, it was an important step. We will very likely make a disbursement of €8.5 billion in early July. We now have to go through the normal national procedures, but the Eurogroup reached an agreement in principle, that's very important, because we know there are big debt service payments coming up in July for Greece, and this is very much part of the programme, so it was not a surprise, it was a bit delayed. But it is part of our €86 billion support package for Greece that started in the autumn of 2015, so we are a little bit more than halfway through. We have a bit more than one year to go, and the euro area finance ministers also made it very clear already last year how they intend to deal with the debt issue.

There's a disagreement with the IMF, they would like to see decisions earlier, but the euro area finance ministers, who have to pay for it, or take the risk, they made it clear a year ago what to do at the end of the programme, in August 2018. They will take a look, we will provide a debt sustainability analysis, the IMF will provide a debt sustainability analysis at that point, and then we will know better how much additional help Greece needs. Because one should not forget that Greece in the past already got a lot of debt relief: private creditors in 2012 had to accept the biggest haircut in history. The official sector, as is often done in the Paris Club when the private sector gives a haircut, agreed to give more money – that's the €86 billion package that we are going through right now. And they provided better terms to Greece.

All this means that right now, Greece has very little debt servicing problems, there's no debt overhang in Greece for the next five years. In terms of Greek GDP, their debt service payments from the budget are smaller than in many European countries, and lower even than the US. In the longer term, there are repayments due, but that's why we are in no hurry. We have very long time frames, a lot of uncertainty, so it's good to wait a bit and see how the economy is doing.

Wasn't this just a fudged result to get us through to the German election period? I mean, nobody wants to see the Greeks default ahead of Angela Merkel's triumphant return as chancellor?

I also don't want to see Greece default after the German election, so it's not a fudge. I know many people look at it that way, but it has a lot to do with what happened already on the debt side, much more than many people realise. And that we are dealing now with a 30-year period coming up, which is very long, much longer than one normally has to look at when dealing with debt in certain countries. And therefore, there's a lot of uncertainty, and it just doesn't make sense to decide everything now, as some wanted, given this uncertainty, and given that there's no debt overhang at the moment. Therefore, economically it makes sense to wait and do this in steps in the future.

I know sometimes you get very angry about the way people talk down Europe and the outlook for growth in Europe. Do we need to fear Donald Trump, or has the trade war gone away? Does Germany need to fear Donald Trump?

On your point that indeed in the past I sometimes got angry because people saw only the negative things in Europe, and we had some challenges, but now we're in a phase where everybody has woken up and sees that economic developments in Europe are good overall, as we just heard from Clemens Fuest, actually better than expected. I'm not surprised by that, because we are in this rare situation where most regions in the world are doing better than projected. So there's a simultaneous acceleration, and that we know from history, always leads to a situation where in the end, growth is faster everywhere. So that's good; I think economically, Europe is strong, not only because growth is strong, but also because the employment rate has been going up, while it has been falling in other parts of the world. Income distribution is much better in Europe. So the risks are there, mainly on the political side, and I would classify the uncertainty about the future trade policy of the Trump administration as one of these political uncertainties, because if it leads to protectionism, it would be bad for everybody.

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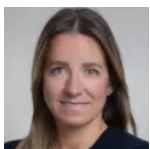


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