

# Transcript of Klaus Regling's interview with CNBC

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Interviews

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## **Transcript of interview with Klaus Regling, ESM Managing Director CNBC, 12 September 2017**

Interviewers: Karen Tso, Geoff Cutmore and Steve Sedgwick

*CNBC: Let me ask you for a comment on the passage of this piece of legislation, which I think ultimately enshrines a lot of EU law into UK law, so that's one positive step forward, it seems, for this process.*

Klaus Regling: Yes, I think this is unavoidable, otherwise there might well be chaos in two years' time. So hopefully this will speed up the process, which has been slow so far, and that's not good for anybody.

*Nobody really wants to compromise, do they? It's really not in the EU negotiators' interest at this point to make the passage of Brexit smooth?*

I sometimes hear from people on the continent that the EU wants to penalise the UK, I think that's also not true, there are clear interests on both sides, and I think the remaining EU does not want to compromise on its core principles.

*Once Frau Merkel has won her election, with all due respect to Herr Schulz who seems so far behind at the moment, do the terms of engagement for Mr Barnier change?*

I don't expect that; from what I see there is great unity among the other EU member states, and I don't think the German elections will change anything there.

*So unless the British change their stance, talking about the future relationship, we're heading for a hard Brexit, unless Mr Barnier changes his terms of engagement, and the British change their idea of the future relationship, this is heading for a hard Brexit?*

That's a risk, but I think the other EU member states have been very transparent in their approach. They have deliberately decided to be very transparent, so there should be no surprises. But in general I must say in this country, people must realise that there are also some other priorities on the continent. Brexit seems to be the only topic in this city, and maybe in the country. On the continent, it's quite different, it's one topic among many.

*I wonder whether when you pass the German elections, another priority becomes number one for the Europeans, and that's about reforming the European project, because Macron has been leading this drive, yet until the German election stands in the way, I wonder whether the tone changes and the very conciliatory approach in the background starts to become a little more aggressive in the Franco-German alliance, with more tension in the reform process. What do you think?*

No, I don't see more tension coming up, I think it's quite the opposite. The election of President Macron was a big relief in most European countries, because we know all the alternative. And he won the election with a very clear stance: pro-Europe, pro-economic reforms in France. That's like in the rest of Europe, that is also like in Germany. I think that's a good basis on which this French-German traditional alliance can start working again after the German election. So I don't see more tension, I see less tension. At the same time, it's fair to understand and to realise that there's always some disagreement between Germany and France on where to move – that's very traditional, I've seen that for decades. Despite these differences, we've been able to make great progress in the past; the euro was created despite these differences. It always requires some work and some good will on both sides, and I think there's more good will now on both sides than I've seen in a long time.

*Are you saying that all boxes get ticked, then, when your fund, the ESM, gets transformed into this European Monetary Fund that Wolfgang Schauble has been talking about, because Macron thinks that just might be a way to steer the debate away from some of the reforms he wants?*

If I'm not mistaken, President Macron has probably mentioned the European Monetary Fund more often than the German government, so on that point I see a pretty easy consensus emerging soon.

*Do you think president Macron has got the spine to face down the unions today – the CGT takes to the streets, it's the first big showdown for Macron on his reform agenda. Do you think he's got the backbone, where other French presidents haven't had?*

France has this tradition of having strikes after the *rentrée*, after everybody comes back from the August vacation. If governments talk about reforms, there are strikes. It's more common than in many other countries. What I see now in France is that the tension is actually much less than it has been on previous occasions, and I think president Macron deserves credit for that. One, he has been very engaged with the unions in the last few weeks, he tries to explain to them, to listen to them, to find compromises without giving up his core principles. And he talked about those core reforms during his election campaign, he got a mandate for that, that's very different from his predecessor, who did some reforms but didn't really have a mandate for that. The other big difference is that president Macron has a large majority in parliament, so I think it's a completely different story now in France, and I know that he has key convictions which reforms are needed for his country, so I'm convinced he will do it.

*It has been a very smooth sailing time in Europe in the last 18 months, with the exception being the wind-up of a couple of banks and the clean-up process. Are you concerned about more heightened fears about Europe again, when you start to see tapering, with less easy money across the block?*

We know there will be normalisation one day; I'm not going to predict when, it's not my job. And everybody needs to adjust to that: governments, particularly governments with high debt, companies, the economy; of course it will be felt. But at the same time we know this will be a gradual process, that's what the ECB has been talking about. They are fully aware obviously there will be an impact. We also learn from the Federal Reserve how important communication is – they are getting out of this in a fairly smooth way, without a big impact on the economy. The economy in Europe is now strong enough to take some of that, so I think it's important to pay attention, but I don't think we should be overly concerned.

*2018 is the time-frame when we're really in the heat of the game?*

As I said, I'm not going to give any timing on that, not because I don't want to; I can't. It's up to the ECB.

*Do you think that one might have sympathy with the views of many of your countrymen, whether they are saving in Sparkassen, or whether they are politicians, or part of the Bundesbank, you are actually stunningly concerned about the bubbles being created, and the tensions being created by this policy as well.*

The ECB has to conduct monetary policy for the euro area as a whole. Sometimes that's underestimated in my country. Looking at the real estate market in Germany, the Bundesbank has said repeatedly that one needs to watch it, but they say so far there's no bubble. We know that in a monetary union it shouldn't surprise anybody, interest rates have to be set for the region as a whole, and that always means that in countries that are ahead of the cycle, interest rates are a bit too low, and for those who are behind, interest rates are a bit too high. This is a very normal phenomenon – it's the same in the US, the same in China; interest rates for Shanghai are always too low, for Inner Mongolia were always too high, so that's to nobody's surprise.

*But so many of the tensions we came into this crisis with – I would suggest that there are still some of the ingredients that led you to globetrot around the Mediterranean, what have you. The debt levels for instance – Greece, 180% of GDP, no sign of that ever being paid down, albeit the fact that their repayment terms are very generous. Italy, 130% of debt/GDP. Could you ask then who's going to stabilise the Club med countries – that's still a relevant question.*

I think it's a little bit outdated, because we have stabilised them up to now. No need to worry about the Greek debt level; they have a debt of 180% in terms of GDP, that is true. But half of that is with the ESM, with my institution, and we only charge our funding costs, about 1%. So Greece has no debt overhang at the moment, because we give loans for over 30 years. And if you talk about Club Med, I don't know who you want to include. We have been lending money to Portugal and Spain and Cyprus, and they are all benefitting from ESM lending terms. Italy has never been a "client" of the ESM because it never lost market access.

*But it has one or two issues, including an unstable political situation. When I look back, I see no-one has been elected prime minister there since Silvio Berlusconi back in 2008. Technocrat after technocrat – Mr Monti, Mr Letta, Mr Renzi. Let's face it: as you know, the prospect of having a decisive victory in the elections that have to happen by May next year, are very dim and distant.*

Let's not exaggerate; when I created the ESM, and before that, the EFSF, journalists came and told me that "Italy will be your first client". It never happened, Italy never lost market access; they have a government, there are important elections coming up. There is uncertainty, we don't know the outcome of the elections obviously, that's normal in democracies. I remember how nervous everybody was eight months ago about the elections in Europe, in France and the Netherlands, and they all turned out to be more pro-Europe, more pro-reform than most people, particularly in this country, expected.

*Are you concerned, though, that the strengthening euro has the potential to undermine this recent recovery we've seen across the Eurozone?*

So far, what I see is a normalisation. The exchange rate at the moment is very much in the middle of these wide ranges of fluctuations that we see. There are these long-term cycles that last 10-15 years. We have seen three of them in the last 40 years. So at the moment I think we are really in the middle there. There's always a concern because you don't know what happens next; if it goes too far, it has an impact on economic developments, obviously it has an impact on inflation. The ECB is trying to bring inflation up to its targets, but at the moment I think they are not too worried and I would share that view.

*Why is the euro strengthening at this point? Mr Draghi would say it's evidence of confidence returning in the strength of the Eurozone, but there's also, it seems to me, a dollar aspect to this story. Could we perhaps attribute the weakness in the dollar to perceptions of incompetence in Donald Trump's economic policy administration?*

An exchange rate always has two sides, by definition, so it's not only one. And it's certainly true it reflects the strength of the euro area; growth is good. It's not only growth, political uncertainties that existed earlier to a large extent disappeared. We have some inherent strengths in the euro area, like better income distribution than

in other parts of the world. Europe, and the euro area, has the best income distribution of any region in the world...

*But you're avoiding my point about Donald Trump; here's an opportunity for you. The Americans took plenty of swipes at Europe when they couldn't see us coming out of our growth funk. Here's an opportunity for you perhaps to swing the bat in the other direction. Do you think Donald Trump is messing up economic policy in the US?*

I don't think that we should use the kind of approach that you are implying.

*But you as a bond salesman, you need to see stability globally, and a gentle global recovery and growth would be terrific. Do you think Donald Trump is damaging the prospects for that?*

I am certainly interested in a smoothly functioning world economy, and there are concerns about US economic policies. Globalisation has worked well, we may have to deal better with some of the side effects. But very much part of that has been the smooth functioning of the multilateral system, the new US administration is less interested in multilateral institutions than before, there is concern about protectionism, so indeed there are some worries.

*Is Europe back? Is this growth going to be sustained?*

I think the euro crisis is over. We are still dealing with Greece as the last case of the old crisis. They have another 11 months under the current programme. But basically the euro crisis is over. That does not mean that for the next 10 years there will never be a problem in Europe again. Economies move in cycles, we should not forget that. 10 years ago people saw great moderation cycles that disappeared. We learned the hard way that that was wrong. So there will be another cycle, there will be another downturn, there's always the risk of complacency when things go well, and they are going well at the moment. And that's the beginning of the next downturn, so there's enough to be worried everywhere.

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