

Klaus Regling at Eurogroup video press conference

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Transcript of remarks by ESM Managing Director Klaus Regling Video press conference after Eurogroup meeting 30 November 2020

Good evening to all of you. I'm happy, of course, that the Eurogroup agreed on the reform of the ESM Treaty tonight. And I also want to thank the President of the

Eurogroup for this huge achievement. I also want to thank the European institutions, the Commission, the ECB, the Single Resolution Board (SRB), who have always supported this reform of the ESM treaty. And I'm happy about that, not because this gives us extra work at the ESM, although we are prepared to do that, but I'm happy because this reform of the ESM Treaty will move us towards completing banking union. And that will increase confidence in markets and also confidence among depositors. And that will make monetary union more resilient and also will strengthen the international role of the euro.

After the ratification, and that will happen next year and may take a year, the amended ESM Treaty will allow the ESM to become the backstop to the Single Resolution Fund (SRF), the body that ensures orderly resolution of failing banks. This means that if the resources of the SRF are depleted, the ESM can lend money to the SRF to finance the resolution of a bank.

The early introduction of the backstop in 2022 is very important, particularly during the current situation where all our Member States suffer the economic consequences of Covid-19. So this will really increase confidence in the markets, minimise contagion in case of bank failures and support financial stability in the euro area. It is good to remember that the ESM is the lender of last resort for 19 euro area countries and for their 340 million citizens. The ratification of the ESM treaty, when it is concluded, will allow the ESM to play a stronger role in financial assistance programmes if requested, of course, together with the European Commission.

As a result of the ESM Treaty reform, the financial instruments will be adapted. In particular, our precautionary credit line will be made easier to use. And all of these are important stepping stones to make monetary union stronger, as the President said.

A quick word on the countries where we had the post-programme monitoring discussed today: Cyprus, Portugal, Ireland and Spain. These are the countries, four of the five countries where the ESM provided financial assistance in the previous crisis. All these countries, of course, suffer like all of our Member States, from the economic consequences of Covid-19. Ireland may also be affected by Brexit, depending whether it's no deal or a well-organised Brexit. Still, we see no immediate risk for these countries to make their payments to the ESM and EFSF, certainly not in the next 12 months. But I think it's also clear that for all these countries, the EU recovery fund creates an opportunity to boost their growth prospects and facilitate

fiscal adjustment.

On Greece, where we discussed the eighth Enhanced Surveillance Report, the President and the Commissioner talked about that. Greece is also affected by the pandemic, like all Member States. But as the Enhanced Surveillance Report makes clear, Greece has continued its reform process under difficult circumstances. For example, important steps have been taken to improve the business environment, to increase the effectiveness of the public administration. It's also important that the newly legislated insolvency framework has been put in place; the Commissioner mentioned that. And based on the assessment, as you heard, the ministers agreed to release the fourth tranche of debt relief that the euro area grants Greece if the country fulfills its reform commitments. This is the fourth time this happens. And we will make the disbursement after national procedures have been completed, certainly before the end of the year. The total amount is €767 million. And it has several components. But I think you may remember that from the past. Thank you very much.

Response to question on whether countries might hesitate to use the ESM backstop to the SRF, as is the case with the ESM's Pandemic Crisis Support

The Pandemic Crisis Support (PCS) is available to the end of 2022 and it has had a positive impact on markets already. By the way, also the International Monetary Fund, in its consultation, confirmed that they have the same assessment - that PCS already served its purpose by being available. And it's less important whether it's actually drawn or not.

The backstop to the SRF that the ESM will be able to provide once the treaty is ratified, is structured in a different way. And actually, the main reason why we have to change the ESM Treaty is because we could not otherwise give a facility, a loan to the SRF, because according to the old ESM Treaty, which is still in place, we can only lend to governments. We could not lend to the SRF, which is a European institution. With a new treaty, with the amended treaty that will be ratified next year, this will become possible and it will only happen if the SRF runs out of money, and we hope it will never happen, that it will never be needed.

This is very much comparable to the situation you find in the United States, where the Federal Deposit Insurance Corporation (FDIC) also collects money from the banks. That's what the SRF also does for European banks. These are the own

resources. And for most times that money is sufficient. In the US when there's a big crisis, which happened twice in the last 60 years, the FDIC has a credit line with the US Treasury. As we have no Treasury in the euro area, the ESM will be asked to provide such a credit line. But hopefully it will never be needed.

Contacts



[Cédric Crelo](#)

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu



[Anabela Reis](#)

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



[Juliana Dahl](#)

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu



[George Matlock](#)

Senior Financial Spokesperson

+352 260 962 232

g.matlock@esm.europa.eu