Transcript of statement at Eurogroup press conference

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Transcript of statement by ESM Managing Director Klaus Regling
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Introductory remark

I think we made good progress today, and that is welcome. And I hope that with the technical work ongoing, in the next few days and weeks we will soon reach the moment when the ESM Board of Directors can decide to release the next ESM disbursement. Of course, as you heard, we still have some work to do to get there, but is it important given that the liquidity situation in Greece is obviously getting tighter as you all know, important payments are coming up. It was also important, as the Chairman [Dijsselbloem] explained, that the Eurogroup today had its first discussion on possible additional debt relief measures.

Maybe in that context it's useful to remind you on what we have done in the past. In 2012, private creditors granted exceptionally large debt relief to Greece: more than 60% of their claims were written down – that was the private side. The official creditors at the same time granted debt relief by extending the maturities of our loans, reducing the interest margin and granting interest deferral. All this was very important for Greece, because it meant that since 2012, Greece saves substantial amounts of money every year on debt service payments. We have estimated that the annual savings for Greece are around €8 billion, coming from these measures in 2012, and that is equivalent to 4% of Greek GDP every year. And all that happened without any cost for the taxpayers in the other euro area countries. It is exactly in this way that we will look now at possibilities to expand [these measures] with the three-step approach as the Chairman explained: short-term, medium-term and long-term; additional measures that would not imply nominal haircuts or burdens for the budgets of our Member States. It is important that Greece returns to a sustainable debt situation, and we believe that with some additional measures, this is doable. (…)

Response to question on short-term examples of debt management:

On the short-term possible measures, the Eurogroup Working Group has a mandate to look into that. Theoretically there are a few options, but nothing was endorsed today; we only got the mandate to look into that. One point to remember is that the interest rates we charge on our loans are determined by our issuing activities. The ESM and EFSF issue from the very short term to the very long term and we can vary that a bit. One option is to lock in interest rates at today's levels; one could issue a bit more long term, but the disadvantage is that interest rates today would go up. But in the long run that may pay off, because interest rates may rise faster than what we have to pay today for 30-year bonds, for example. So that's just an example of what is possible; beyond that liability management is an option: with every disbursement we make, we fix the repayment schedule. And it can always vary around the average maturity that was agreed last summer: 32 years – that's the weighted average maturity. But for every individual disbursement, we have some leeway to make sure there is no bunching of repayments in a certain year, so we have some room for manoeuvre here. And another example is that we know that some creditors charge higher interest rates than us; so one could think of ways to repay them early, and that would also reduce debt service payments for the Greek authorities. (…)

Response to question on debt relief and interest deferral:

Indeed, the ESM looked into technical possibilities for additional debt relief, together with the European Commission and the ECB. But the details of that were not discussed today in the Eurogroup. But it's important to get the process going and we had the mandate to do that. As I said earlier, we look at all possible options: maturity extension, grace periods, interest deferral. The red line, as the Chairman also repeated, is no haircut. So in a way, we look at what we did in 2012, and we can use that as a base and work with those variables. And that's particularly important because we are dealing with a really long-term horizon, so we also need to capture somehow the inherent uncertainty that comes with such a long horizon. We are sometimes surprised that forecasts even for the next years are quite off the mark;

that happens. So forecasts and assumptions that we have to make in the context of the debt sustainability analysis that go over the next 40 years necessarily have a very high degree of uncertainty, so we also need to capture that somehow.

You also asked how an interest deferral works; we have one in place since 2012, so Greece does not need to pay right now the major part of interest payments on EFSF loans. They are small, because we only charge our funding costs, which are low, given our good rating and the guarantees from our Member States, and the global interest rate environment. But still, there is a non-payment of interest due. This is not forgiven; it’s added to the debt stock, so Greece must repay that in the future – so this respects the red line of no haircut and no budgetary transfers. (…)

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