Rolf Strauch at Eurogroup press conference, November 2021

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Transcript of remarks by ESM Chief Economist Rolf Strauch
Press conference after Eurogroup meeting
Brussels, 8 November 2021

Good evening. Klaus Regling, the ESM Managing Director, cannot be here today. He had to undergo a minor scheduled medical procedure, which interfered with the timing of today's meeting. But he is looking forward to joining the Eurogroup meeting again on 6 December.

Let me briefly focus on three areas that matter from an ESM perspective: the economic outlook, economic governance, and then the common backstop and banking union.

On the economic outlook, I would like to offer the perspective of markets on that issue, which matters for us, obviously from a financial stability perspective. First, we agree with everything that President Donohoe and Commissioner Gentiloni said on the past success.

However, regarding inflation, uncertainty about the outlook and the policy response have triggered volatility in financial markets over past weeks. While investors expect the rise in energy prices to be temporary, they seem to be more concerned about supply bottlenecks. There are also worries how monetary policy will react to those developments, particularly outside Europe.

Markets are also mindful of how these shocks affect growth prospects. Supply bottlenecks and higher commodity prices weigh on global demand with downside risks to growth. Against that background, markets are still positive about the overall environment, but they are more sensitive to news flows on the policy outlook, and they are looking for clear guidance on how policymakers weigh the upside risks against the downside risks. And they want to have confidence how that policy outlook will be in order to have confirmation on the further policy path. This plays also into the role of the economic governance review.

On the economic governance review, we very much welcome the European Commission initiative. It is a good moment to consider how the framework can be made more effective in addressing both stabilisation and growth in a changing macroeconomic environment.

As I noted before, markets and investors are seeking clarity on the policy stance for 2023 and beyond. Providing guidance on how to stabilise public finances and create buffers for the future, on the one hand, and on the other hand, how to provide the necessary resources for growth for a greener, digitalised economy will help firms and households. It will facilitate investment and support the recovery. It will provide confidence.

We think that the structured discussion process outlined by the President to the Eurogroup and by the Commissioner is indeed very helpful in this respect, and we are confident that the Eurogroup will reach conclusions at the end of such process under their leadership and guidance.

While the public debate focuses on fiscal rules, the review also includes the crisis management framework, which is of key interest to the ESM. We think that the crisis management framework overall has worked well, but also here it is good to be open-minded and take a close look. The ESM has evaluated the crisis experience. So has the European Court of Auditors, and the European Commission is in the process of conducting an evaluation. All this is useful input to the discussion and we will continue our close cooperation with the European Commission and of course will be happy to engage and provide our views in the further process.

Finally, on banking union, we welcome the good progress done in the reduction of non-performing loans on bank balance sheets. While this is reassuring, we of course need to progress further on banking union and complete the project. In this respect, the introduction of the common backstop for the Single Resolution Fund is the most concrete policy element on which we are currently advancing. I'm glad to confirm that all the relevant legal texts for the entry into force of the ESM reform, in particular, the backstop to the Single Resolution Fund, have been finalised. From the ESM perspective, everything is on track so that the backstop to the Single Resolution Fund will be in place at the beginning of 2022, as agreed.

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