Klaus Regling's remarks at Eurogroup press conference

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Transcript of statement by ESM Managing Director Klaus Regling

Press conference following Eurogroup meeting, 26 January 2017

A few words from the ESM perspective. First, on the Greek short-term debt measures. I think you are probably aware that earlier this week, the Board of Directors of the EFSF and ESM adopted the necessary legal decisions to start implementation of these short-term measures. I think it’s really important for Greece because it will reduce interest rate risk and improve Greek debt sustainability. You are probably familiar with the details; you can read them on the ESM website. Just a short reminder: we are dealing here with a bond exchange, where floating rate notes disbursed by the ESM and EFSF to Greece for bank recapitalisation will be exchanged for fixed coupon notes. There are measures related to swap arrangements that will reduce the risk that Greece will have to pay a higher interest rate on its loans when market rates go up. We will do matched funding, which essentially means issuing long-term bonds to match the long maturity of our loans to Greece. In addition, the EFSF waived the step-up interest rate margin for the year 2017 on a particular loan tranche. A margin of 2% had originally been foreseen, to be paid from 2017 on. And we are adapting the maturities of our outstanding loans. All this will go a long way in easing the debt burden for Greece over time, according to our debt sustainability analysis. It could lead to a cumulative reduction of the Greek debt to GDP ratio of around 20 percentage points over the time horizon until 2060. It will also produce a cumulative relief effect of around 5 percentage points of gross financing needs.

It’s important to note that in line with the mandate we received last May from the Eurogroup, all this happens without budgetary implications for ESM Member States. With these short-term debt measures, we are improving the debt conditions for Greece and I think this will also contribute to the return of Greece to market financing over time. Of course, the success of the programme lies in the continued implementation of reforms as agreed, and in that context, the conclusion of the second review is important.

On Ireland and Portugal, Chairman Dijsselbloem and Commissioner Moscovici talked about the post-programme monitoring missions that took place. As always, the ESM participates in these surveillance missions in the context of our Early Warning System. It is designed so that we are confident that former programme countries are able to honour their interest and repayment obligations to the EFSF and ESM. For both countries, we do not see repayment risks. Of course, the two countries are in very different positions from the market perspective – when you compare the interest rates for Ireland and Portugal, Ireland benefits from very favourable market perceptions, while Portugal, we have to realize that markets are nervous about a number of things: about the debt level, the financial sector, and also the competitiveness of the economy. But I’m confident, and the minister talked about that, if they address these issues, also markets will react to positively to that.

Finally, a few words on the funding activities of the EFSF and ESM. It’s always important from my perspective, because we have to find the money first before we can give loans or refinance outstanding claims. We announced to markets some time ago that this year, in 2017, we intend to issue bonds amounting to €57 billion, and this week the ESM was in the market for the first time this year with a very successful deal. We raised €3.5 billion by issuing a 30-year bond. It was the first 30-year deal of this size in our segment of the market this year. And it was the largest in this segment of the market since 2014. The issue was two times oversubscribed, although there was a lot of supply from other issuers in the same week. And it shows that we meet investor needs in terms of timing and maturity, it shows there is ongoing demand from high quality investors like pension funds and insurance companies for our papers.

Question on whether there was any feedback from the IMF regarding the impact of short-term debt relief measures, and whether it will be enough for the IMF to participate in the programme

Of course the IMF is fully informed, and I mentioned already in my introduction here tonight that over time, these measures, from today's perspective (because it always depends on the market situation) we will reduce the debt stock in terms of GDP by 20 percentage points and the gross financing needs by 5 percentage points. That's important, but to be fair, I don't think this is enough for the IMF, from their perspective today, to say now everything is done and we don't look for further debt measures. I don't think that is their view. But they are fully informed and they will incorporate that in their own debt sustainability analysis.

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