Introductory statement by Klaus Regling at press briefing for EU journalists

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Klaus Regling
ESM Managing Director
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(Please check against delivery)

Good afternoon and also from my side, a warm welcome to the ESM in Luxembourg. I have to be in Brussels today. But I nevertheless wanted to discuss with you the ESM's activities. Thanks to the EIB's video link it will be almost as if I was in the room with you. It is a great initiative that the EIB has brought you all together to visit the Luxembourg institutions and I want to thank EIB President Werner Hoyer and his colleagues for organising this.

The ESM is a recent addition to the institutional bodies of the monetary union. Its role is to provide financial assistance to euro area countries that lose access to financial markets during a crisis.

We are the lender of last resort for sovereigns. Such an institution did not exist in the monetary union before the crisis. But in 2010 and 2012 some Member States of the euro area lost market access. As a consequence, there was a real risk that countries such as Ireland, Greece, or Portugal could have been forced to leave the euro area. To prevent this from happening, the euro area countries set up a fund for

emergency loans at the height of the crisis in 2010. Initially this was a temporary institution, the European Financial Stability Facility. This was then replaced by the ESM as a permanent institution in 2012. The ESM was set up through a treaty between governments. Its shareholders are the 19 euro area countries. Together, the two institutions have a lending capacity of €700 billion.

In their short history, the EFSF and ESM have provided loans to five countries: Ireland, Greece, Spain, Cyprus, and Portugal. In total, we have disbursed €270 billion in loans, 2.5 times as much as the IMF globally in the same time period. The ESM has a paid-in capital of €80 billion, which is the highest of any international financial institution. But we do not use this money to lend money to programme countries. It functions as a safeguard to our investors. The ESM does not spend any taxpayer money to finance its assistance programmes.

Instead, we raise the money that we need from investors by issuing bonds and bills. We can borrow at very favourable rates. This is because of our high credit rating, which is due to the high paid-in capital of the ESM. Our low rates mean considerable budget savings for programme countries, because the interest payments they make to the ESM are the same as those we pay in the market to countries that borrow large amounts. In fact, our lending rates are only a third of what the IMF charges. In the case of Greece, this saves the country almost €10 billion per year, or 5.6% of its GDP. These are very substantial amounts, and are a form of financial solidarity between euro area countries that few people realise exists.

To qualify for such advantageous loans, countries must commit to strict economic reform programmes. They need to fix the problems that led to the crisis. The IMF has successfully applied this cash-for-reform or conditionality approach around the world for decades.

Needless to say, such reforms are often painful for the people in a country in the beginning. But in the long run, the citizens in the countries will enjoy stronger economic results. Of the five ESM programme countries, four are success stories. Ireland, Spain, Cyprus, and Portugal have ended their programmes, and their economies are doing well. Ireland's economy grew by 5% last year and Spain's by 3%. This makes them the growth champions of the euro area.
Greece is the only country that is still in an active ESM programme. So far the ESM has disbursed €39.4 billion to Greece, out of a total ESM programme volume of up to €86 billion. Together the ESM and the EFSF have so far disbursed €181.2 billion to

Greece, making the rescue funds by far the largest creditors to Greece.

This programme ends in August 2018. The ESM is currently getting ready for its next review mission in Greece in mid-October with the other institutions to check whether the government has implemented the agreed reforms. If the government has, chances are good that Greece can regularly refinance itself after completing the programme.

What else can be done to strengthen monetary union? Any additional steps needed to complete monetary union are limited compared to what has already taken place since the start of the crisis: the creation of the ESM, reforms on a national level, better economic policy coordination on a European level, and banking union.

The euro area still needs to take a number of further steps, to make monetary union more robust, and to further improve the resilience of the economy.

Let me start by mentioning the things we do not need, in my view, to make monetary union work better. We do not need full fiscal union, nor a full political union for the proper functioning of monetary union.

We also do not need additional transfers between countries. Transfers are important to promote real convergence. But the existing EU budget already allows for significant transfers from rich to poor countries, which can amount to up to 4% of a receiving country's economy. The use of budgetary funds to promote real convergence could become more effective.

We also don't need a large additional budget to counter deep symmetric crises. Europe has shown that in truly exceptional cases, we can successfully fight a crisis through a simultaneous increase in fiscal deficits, such as during the global financial crisis of 2008/09.

Finally, the euro does not need a new investment budget. It already exists for the EU, in the form of the so-called Juncker Plan, the EIB, and the structural funds available through the EU budget. If needed, these facilities can be increased and their use could become more efficient.

But certain further steps could be useful. First, Banking Union needs to be completed. In the wake of the crisis, the euro area established the first two pillars of

Banking Union: the Single Supervisory Mechanism and the Single Resolution Board. What is needed now is a financial backstop for the Single Resolution Fund, to make it more credible in the eyes of financial markets.

And Banking Union is not complete without its third pillar, a European Deposit Insurance Scheme. Work on that continues, but it will only happen after legacy issues at banks in a number of countries have been tackled first.

Secondly, the euro area should harmonise bankruptcy, tax and corporate law, a project known as capital markets union. This would ease the way for cross-border equity investments and open up new ways of funding for companies.

A limited euro area budget is also under discussion. It could serve different purposes. In my view, we have a real need in the monetary union to create a facility that deals with so-called asymmetric economic shocks. One hypothetical example for an asymmetric shock could be Ireland which would be singularly hard hit in case there was a particularly hard Brexit.

A country hit by an asymmetric shock would receive money during a crisis, but would need to repay it once it recovers. The fund would therefore not lead to permanent transfers or debt mutualisation. Examples from the U.S. show that this is possible. Almost all states there have “rainy day funds”, which they fill during the good times, and which they can borrow from when a crisis hits. A “rainy day fund” for the euro area would have to be 1% to 2% of the economy, so between €100 and €200 billion. A complementary unemployment insurance, which also exists in most U.S. states, could be financed from a small fraction of existing employer and employee contributions, so that no extra financing is needed. This would enhance risk sharing.

A number of institutional developments are also under consideration. First, a permanent president of the Eurogroup could be useful, to better coordinate economic and financial policies and to represent the euro area in international bodies such as the G7 or the IMF. That person could become the euro area finance minister, once the competences have been clearly defined.

Second, the European Parliament could create a subgroup representing euro area countries. This would facilitate the accountability of all matters related to the euro area, in which the Parliament does not currently have a say. National parliaments

will, however, continue to have a say over ESM lending, because the associated risk is assumed by national budgets.

Third, there are thoughts about developing a European Monetary Fund. So far, the IMF has always contributed to the ESM rescue programmes in Europe. We Europeans would probably not have been able to manage on our own at the start of the crisis in 2010. But a consensus is now growing that the IMF will not play that same role again in a future crisis in Europe. The ESM could take over certain tasks that the IMF had so far. In my view, future programmes will be managed jointly by the European Commission and the ESM.

This list of ideas shows that there is a serious debate about the future of the euro area. President Macron has made interesting proposals on Tuesday. So had Commission President Juncker earlier. Many other leaders in Europe have come forward with ideas. It is now time for a debate. The position of the euro area Member States will count in particular. After the German elections on Sunday we need to allow for the necessary time for the coalition talks to conclude. As Germany is my home country let me just make the point that coalition talks traditionally do take time, more time than many observers seem to think. Looking back at the last coalition talks in 2013 I remember that between election day and the day the chancellor was sworn in almost three months passed.

Thank you for your attention. I look forward to your questions now.

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