Klaus Regling at Eurogroup press conferences

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Transcript of remarks by ESM Managing Director Klaus Regling
Press conference after first Eurogroup meeting, 4 December 2017
(Topics: Election of Eurogroup president; Greece, Cyprus and Spain)

Good afternoon, I also want to start by congratulating Mario [Centeno] for his election. We worked together very closely in the last two years. We had many meetings in Lisbon, Luxembourg and Brussels. We always had very constructive and productive discussions and I really learned that he is a passionate economist, and I'm sure that will show up during the next few years.

Today Portugal is one of the success stories among the former programme countries and Mario Centeno played a strong role in that. Mario will soon get a second hat; he will also be elected as the Chairman of the ESM Board of Governors. We are starting a written procedure on that because the process has to be formalised and legalised, so there will be a vote among the governors of the ESM – those are the ministers in the Eurogroup. I have no doubt that the result is very easy to foresee, so I'm looking forward to working with Mario in the Eurogroup, and also in the ESM Board of Governors.

During these critical times Commissioner Moscovici mentioned the key issues that are on the table for the next six to eight months: to finalise the Greek programme and to steer the debate about the future of the Economic and Monetary Union. And in the end, the ESM is happy to support him in that new function.

I also want to take the opportunity to thank Jeroen Dijsselbloem for his leadership in the Eurogroup and for the productive work with the ESM, of course with many other institutions, but for the ESM it was particularly important during the last five years. He was of course the Chairman of the ESM Board of Governors and we made a lot of progress during these years. One only needs to compare Europe and the euro area today with 2012 to realize the progress that has been achieved, and I think he deserves a lot of credit for that.

On Greece, of course I'm also happy like everybody else that the staff-level agreement has been reached. I think it's a really good signal, one – for the increased ownership of the ESM programme by the Greek government. It's also a good signal for markets, and now I hope that the implementation that needs to follow can happen quickly, so that indeed we will be able to disburse, hopefully by the end of January, our next tranche.

I also want to give you one other good piece of news which is very important for Greece. You may remember that the Eurogroup asked the ESM early this year to implement short-term debt measures for Greece during the course of this year – this is what we have done. There are a number of measures that have been taken, they are all market-based instruments, and the details are a bit complex technically, but you can find all these details right now on our website. All these measures do not lead to any costs for the ESM or for the other members of the Eurogroup, and they will improve the debt sustainability of Greece. The improvement is actually a bit stronger than we estimated at the ESM earlier this year when the measures were adopted. At that time we thought that full implementation could reduce the debt-to-GDP ratio by 2060 by 20 percentage points of GDP; now it looks more like the improvement is 25 percentage points of GDP, and the gross financing needs to GDP ratio will be reduced by about six percentage points. So this is really helpful, I think, going forward for Greece and its debt sustainability.

On Cyprus and Spain, the ESM participated in the two post-programme missions, in the context of our Early Warning System. We looked at the ability of these countries to service their debt with the ESM in the short term, and in both countries there is no reason for concern; they are able to make these payments. Of course there's a long list of challenges that these countries need to continue to work on, despite the significant progress they have been making, and I agree with what you have heard on that already, so there's no need to repeat that here.

Response to question on the size of the next loan tranche for Greece

It's a bit too early to be very precise on that. There is no immediate financing need in Greece, but in the next few weeks, and going into 2018, we need to discuss how big the buffer should be at the end of the programme, so there are a few variables that are not fixed. You can look back at what was implicitly used at the time of the second review. There we assumed that for the remainder of the programme, about €18.5 billion would be disbursed, so that would be between January and August at the latest, and the idea was to have three reviews still left. Now maybe that's only two, so it all indicates that we don't have precise numbers. It seems to me that it's more likely that when we have completed this review, there will be one more, not two more. So we may split this €18.5 billion differently, but that's the order of magnitude for the remainder of the programme, which by the way, is well below the entire envelope of €86 billion.

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(Topic: debate on the future on Economic and Monetary Union [EMU])

I also agree we had a useful discussion today. And I think it gave the Chairman a good basis to report to the Summit at the end of next week. Looking at the main elements for deepening EMU, at the ESM we take an economic perspective, and always try to assess what would make monetary union more robust and more resilient. And for us, from the economic perspective, but there are also political considerations, as Commissioner Moscovici said, but from an economic perspective it boils down mainly to risk-sharing inside the monetary union. We know that risk-sharing is underdeveloped inside the monetary union, compared for example to the US, but also compared to the risk-sharing that does take place within Germany, for instance, or within France.

And we do know that risk-sharing can happen via markets, or via public channels, and the debate to some extent went through those possibilities of increasing risk-sharing on the financial side, and improving risk-sharing via markets. It has a lot to do with completing Banking Union, we know there are two elements – the backstop for the SRF [Single Resolution Fund] and the deposit insurance scheme. And there, the debate will focus on the conditions that need to be in place to make it happen – not so much that it's useful for monetary union one day. The day when it may happen will depend on when the conditions are in place, like de-risking, working on NPLs [non-performing loans], legacy issues and so on. On the fiscal side, that clearly needs more discussion; there's no agreement on that. It could include a discussion on fiscal rules; there's a debate on a fiscal capacity for macroeconomic stabilisation. That in my view does not require an annual budget. It requires a credit line, some money that is available, but it doesn't need to be spent every year.

And then there's the debate about an annual budget for the euro area that could be used to stabilise investment in a crisis, for example, to finance public European goods, so these are in a way two different debates. But it's very hard to say where it might lead. What does it mean for the ESM's future role? That was discussed in detail two months ago, and there was a growing consensus that the ESM will play a stronger role in the future, for instance in the design and negotiation of any future adjustment programme, together with the European Commission, of course. There might be the mandate to provide the backstop – nothing is decided, but it's on the agenda. There might be something linked to the possible fiscal capacity if it's this pot of money, this facility or credit line. Not so much if it's an annual budget to finance European public goods.

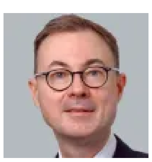
Beyond that, we are waiting for the Commission proposals on Wednesday, and before we know the details on that, I will refrain from further comments.

Response to question on the potential size of a macroeconomic stabilisation instrument

Today the size was not discussed, so you don't get wrong ideas. But I have also said on other occasions that if we think of such a facility for macroeconomic stabilisation, which is different from the annual budget to finance public European goods for instance, that is a different story. But on the stabilisation, we don't need an annual budget, so this is not a number that would have to be mobilised every year, because there are many years in a steady state where such a credit line or rainy day fund is not needed. So it's more a question of having an amount of money – it could be at the ESM, from our undrawn and uncommitted resources, there could be other ways to finance it. And it could then be one to two percent of GDP, I've said that on another occasion, so I'm not denying that, but it was not discussed today.

But that would not be an annual budget, this would be mobilised at once, to have such an amount available, and then occasionally in a crisis it would be needed, but there will be many years when nothing is needed. And if it's a fund, it should be a revolving fund. If it's a new ESM facility, with short-term maturities, it should be all repaid within one cycle, because it's for macroeconomic stabilisation. So if it's used in difficult times, within a cycle there's an improvement, so when the cycle is completed, this should be repaid. So if it's a revolving fund, it would be fully replenished and available for the next crisis.

Contacts



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