

Klaus Regling at Eurogroup press conference

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Transcript of remarks by ESM Managing Director Klaus Regling

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Good evening. Let me begin with some remarks on these two countries [Ireland and Portugal] where the Commission conducted the post-programme monitoring. We from the ESM do our own Early Warning System, and in our analysis we use, on the one hand, our perspective as a creditor to Ireland, Portugal, Greece, Spain, and Cyprus. On the other hand, we have insights from our daily contacts with markets as a bond issuer, and as an investor of our capital so we can put all these things together and I think that's it's a good combination, that's perfectly complementary to the perspectives that the Commission has on these countries.

More specifically, on Ireland and Portugal, the good news is that we are not concerned about their payment capacity to the EFSF in the short term. This is not unimportant because the payments are increasing - for Ireland more than €300 million and for Portugal almost half a billion euros. So the amounts are not negligible but we are not concerned. At the same time because we are a long-term creditor and we are the largest creditor to these countries, we also must take a long-term view on the country's growth potential, risks and debt sustainability. This is important because repayment takes place over the next 20 years and we will monitor the economies until everything is repaid.

In that context Ireland, which obviously has had a very good economic performance the last few years, with highest growth rates in the euro area for several years, has some risks on the external side. You're all aware of Brexit. We are aware of the deterioration in the external environment on the internal side. There are some risks of overheating and in that context it's very encouraging that Ireland decided to create a rainy day fund and also decided to increase their rainy day fund to a higher volume than initially planned. And I think that this is really the appropriate step to take in light of these risks.

With respect to Portugal, I share the view expressed already that developments on the economic and budgetary side have been very good in recent years. But of course there are also risks. Looking at the longer term, risks are coming from the external side but also I think on the internal side. It's important that wage increases are supported by productivity gains in order to keep competitiveness.

A few words on the budgetary instruments that were discussed today. I think it's good to look at this also in the broader context of what has happened over the last few years. Since the beginning of the euro crisis, we have been trying to increase the resilience of the euro area to reduce its vulnerability. Many things have happened. We discussed this over the years, including important institutional innovations like the beginning of Banking Union, the creation of the rescue funds EFSF and ESM.

And now looking at the budgetary capacity, I know that most market participants take the view that monetary union would be incomplete without such a budgetary capacity. They would see a clear gap as long as that does not exist. Improving convergence and competitiveness, which is the aim of this budgetary instrument that we discussed, would obviously also improve the resilience of monetary union. In addition, from an economic perspective, I think it would be useful that such an instrument is designed in a way that it also has some countercyclical elements and that can be done via the expenditure side. But also via the funding side, or both, while maintaining fiscal neutrality over the medium term.

Response to question on the economic outlook for Europe

Let me just add a few points on the economic situation how I see it, after discussing with many investors around the world. On the one hand, we had to expect a normalization; the output gap has closed so the high growth rates of 2017 and 2018

could not continue for much longer. And we have some downside risks that the Commissioner rightly mentioned. And that means a lot of uncertainty. But at the same time, we should not forget the positive factors which are still there.

And Mario Centeno mentioned some of them. Employment growth continues to be strong until today. But not only that, there is more employment, there is also a stronger wage increase. On average, wages in 2019 will increase faster than in 2018 or 2017. So this combination - more jobs with higher wages will support consumption. Also investment is picking up. And that's also possible because profitability of the corporate sector is better today than it has been in a long time. The internal demand, domestic demand, there are good hopes that it will hold up.

Banks are stronger, oil prices are coming down and also on the fiscal side, where the deficit was less than 1 percent for the euro area as a whole. There may be some fiscal expansion in 2019 for the first time in several years. And monetary policy, despite the end of QE and buying bonds, continues to be accommodating. So when you put all that together, I think one should not become overly concerned that this slowdown, which is to some extent and normalization, would go much further than that. I think that's important to keep all the elements together.

Response to question on the conditions for disbursing the SMP and ANFA profits to Greece

The amount of these profits is not negligible. At this moment, the SMP and ANFA profits and the waiver of the ESM's step-up margin, together, add up to around €1 billion. But the basis for a possible disbursement is very clear. It's the second enhanced surveillance report, which is now under preparation by the Commission and the basis for that was the mission - when our different teams went to Athens a few weeks ago. And then the Eurogroup will look at that the report and take a decision at the next meeting. It's clear that there are some issues open at the moment.

But Greece has a few more weeks to work on that before the report on enhanced surveillance is completed. We are all in contact with the Greek authorities: the Commission, the ECB, the ESM. The open issues are clearly identified and we know that the authorities are working very hard. But I cannot tell you today what will happen at the next Eurogroup. It will depend on developments until then.

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