

Press conference after Annual Meeting of ESM Board of Governors

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Transcript of remarks by Mário Centeno, Klaus Regling and Joaquín Almunia

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11 June 2020

Remarks by Mário Centeno, Chairperson of ESM Board of Governors

We just finished our 8th ESM Annual Meeting. The ministers reviewed the 2019 activities of the ESM, approving the Annual Report, and discussed the independent

evaluation of the Greek programmes, authored by Joaquin Almunia.

While we focused on past events today, the ESM is very much active in helping us to respond to the economic crisis triggered by the Covid 19 outbreak and the ensuing lockdowns. With the recently created Pandemic Crisis Support, the ESM has demonstrated once again that it provides a critical firewall for shielding our common currency from shocks.

Let me say a few words on the evaluation of Greek financial assistance programmes. I am very happy with the work done by Joaquín. This is a policy-loaded and balanced report which I encourage you all to read.

At the end of the day, the financial assistance programmes have kept Greece in the euro area. This is by no means a small achievement. But the length and the multiple costs of the adjustment - the financial, economic and social adjustment - demand an explanation.

The Greek crisis has shaken our currency. It seriously tested the integrity of the euro area and our capacity to act decisively and effectively. We, ministers and institutions, have a particular interest in drawing lessons. This is an experience none of us can afford to repeat.

The Board takes all findings and recommendations by Joaquín Almunia seriously, and have agreed follow-up action. This report will inform further discussions, formal and informal, among stakeholders.

As today was my last ESM Board of Governors, let me take the opportunity to express my deep gratitude to the ESM Managing Director and all ESM staff for all their work to help us protect the euro.

In my role of as chairman over the past two and a half years, we have taken some key decisions together: you will all recall the soft landing to the Greek programme, which put an end to the sovereign debt crisis in Europe; the agreement in principle on the ESM Treaty reform, and the backstop to the Single Resolution Fund. Most recently the Pandemic Crisis Support instrument was also a landmark in this action.

A lot of changes and improvements to our single currency, all through the ESM. It

goes to show that this institution has been, and will continue to be, a powerful instrument to deepen the euro area.

Remarks by Klaus Regling, ESM Managing Director

Let me start by thanking the Chairperson of the ESM Board of Governors, Mário Centeno. As he just mentioned, this was the last time he chaired a meeting of the ESM Board of Governors. But during the last two and a half years a lot has been achieved. This was an eventful period and he mentioned the main achievements that are very relevant for the ESM and will continue to be relevant, like the end of the Greek programme, the political agreement on amending the ESM Treaty, and the creation of the Pandemic Crisis Support. So I want to thank Mario Centeno for his hard work, and I want to express my personal appreciation.

The Chairman focussed his remarks on the report that Joaquín Almunia, our Independent Evaluator presented today on the Greek programmes. The report titled “Lessons from Financial Assistance to Greece” is substantive; when you have the book in your hands, you can feel it is substantive – but it is also the content that is substantive and I think it will become required reading for anyone interested in this issue. For me, the report’s main take-away is the following: on the one hand, the programmes kept Greece in the euro area and restored financial stability in Greece. That was essential, of course.

But at the same time, the report points to a number of things that could have gone better and that’s exactly where we can learn important lessons for our future work. The report concludes with five concrete recommendations that Mr Almunia will explain to you in a moment. And our Board of Governors adopted a statement on the report, and that will guide ESM management when we come up with concrete proposals and conclusions to draw from the report, and we will discuss that in the future with our governing bodies.

The Board of Governors also approved today the ESM Annual Report. The report reflects important milestones such the agreement on the reform of the ESM treaty that I just mentioned. Once ratified, the ESM will provide the backstop to the Single Resolution Fund. This is would be and will be an important step towards completing banking union and it will strengthen the euro area. In addition, the ESM will get a greater role in future programmes.

The Annual Report looks at our five former programme countries Greece, Portugal, Ireland, Spain and Cyprus. Together we disbursed almost €300 billion in loans to these five countries, a bit more than two-thirds of that to Greece alone. That makes the ESM the largest creditor in all of them and by a very large margin in Greece. Our loans come at very low cost and with very long maturities. As a result, all five borrowing countries save very large amounts of money in their budget every year. Our Annual Report shows that Greece saved €14.1 billion in its budget in 2019 alone. That is equivalent to 7.5 percent of the Greek gross domestic product. The numbers in the past years and in the coming years have been and will be similarly high. The Greek government can use this money for other purposes. This is an impressive show of solidarity in the euro area, as this gives a lot of budgetary breathing space to Greece.

Solidarity is also at play with the ESM's Pandemic Crisis Support. This credit line is available now to all euro members to finance costs related to the fight against Covid-19. Requesting and using Pandemic Crisis Support would lead to big savings in the budgets of many member states. This money comes basically at zero interest rate and without any conditionality. It is part of the immediate European response to counter the devastating human and economic effects of the coronavirus crisis. The European Recovery Fund, which is currently discussed by EU members and very much supported by the ESM, will very likely provide financing from next year on only.

Finally, the Board of Governors has approved the construction of a new ESM office building in the city of Luxembourg. This is in line with recommendations by the European Court of Auditors, according to which owning offices instead of renting them leads to significant savings for institutions over the longer term. The building is expected to be finished by 2028.

I now hand over to Joaquín Almunia and then we are all looking forward to your questions. Thank you.

Remarks by Joaquín Almunia, Independent Evaluator of financial assistance to Greece

Thank you Klaus, and thank you very much indeed to Mário Centeno, who gave me this mandate more than one year ago. I hope his expectations have been fulfilled with the report. And I hope that in his future, he will have the same success as he

had during the 2.5 years as Chairperson of the Eurogroup and ESM Board of Governors.

Let me now go to the Evaluation Report. Evaluations are always important to draw lessons from the past to support informed policy decision-making going forward, and in the case of this report, I hope the conclusions and recommendations will be useful to enhance the ESM's ability to tackle future crises.

This evaluation is particularly relevant given the size of the assistance and the dimension of the problems addressed. The extraordinary support provided to Greece – Klaus Regling just mentioned the figure of the programmes financed by the EFSF and ESM – kept the country in the euro area and preserved the integrity of the currency union. And it helped the Greek economy to stabilize its economy and grow, and look into the future with hope.

So the overall objective of the programmes, to maintain the integrity of the euro area and to restore financial stability in Greece, was attained. At the same time, Greece and its citizens suffered the consequences of eight years of very hard economic adjustment. The findings of this evaluation further increases the concern to get coherent programmes with good design, with good governance, with ownership. And I hope this will also increase the transparency and the accountability of ESM's activities.

I would like to highlight the independence of this exercise. I want to thank Klaus and the ESM management for the absolute independence that they respected in my job, and I hope this independence that I enjoyed will be useful to learn from the past and to draw lessons for the future. The analysis of this report was done by a small team at the ESM, which reported directly to me to ensure independence. And the members of this team were not directly involved in the ESM engagement in Greece.

Also, we were aided by a group of very senior external experts that gave valuable guidance. If you read the report, we detail there the broad input the team gathered to mitigate biases.

We did many, many interviews – over 120, half of which in Greece – and background studies, and now very quickly I will go to the recommendations that I added at the end of this report.

The first recommendation is that programmes must define clear strategic objectives

that balance short-term adjustment with long-term sustainable growth.

The second says that a good programme requires coherent design, with conditions focused on what really matters for the achievement of those key objectives. At the same time, we must ensure efforts are fairly distributed, to avoid unnecessary social costs of the adjustment. This will increase the resilience of the society and help promote popular support for the adjustments and reforms.

The third recommendation says that programmes must also ensure that their result is sustainable. Exercises to determine that debt is sustainable should be carried out during and after the programme. This will help assess the progress of a programme and to support interactions after it has ended.

The fourth recommendation refers to the need of the Institutions - the ESM, the European Commission and other institutions - to coordinate their analyses and align, as much as possible, their assumptions. This will avoid costly delays in making decisions. After the urgency around the current pandemic eases, the ESM could use more of its resources to effectively contribute to the design of future programmes.

And the fifth and last recommendation asks for good monitoring, needed to make sure the gains from the programme are not lost and sustainability is safeguarded once the programme has been concluded. This is very important. I see an increasing role for the ESM in explaining the importance of continued reforms beyond the programme, as a long-term partner.

And I could add, as a conclusion, that, in my view, the new ESM Treaty that I hope will be adopted and ratified as soon as possible, should be the base under which my recommendations should be considered. [Almunia said "... the base under which my recommendations should be considered in that light", which doesn't make sense]

Responses to questions from journalists

There was one line in the report that really grabbed my attention and I'll just read it out for the sake of context. "ESM members' national policy preferences at times hampered the Institutions' ability to effectively design and negotiate policy measures best suited to Greece". I'm just wondering to what extent can we in the

future avoid politics from undermining the sort of independent credibility of the ESM as an institution that bases its work on economic rationale and not political emotion?

(Joaquín Almunia)

As a former politician, I cannot agree with the need to avoid politics. Designing a programme, implementing a programme, defining conditions, monitoring the implementation, coordinating the role of the institutions is a highly political challenge for all the political responsables, in any of these situations, the Commission and the ECB, IMF and, of course, the ESM. The question is that if you have a strategic vision in the design of the programme with clearer strategic objectives, I hope that the political divergences can be solved through agreements that will not delay the adoption of the programmes and the implementation of the programmes.

But I don't consider that politics is not compatible with economic rationale and economic sound analysis. On the opposite, I think good politicians are the necessary condition for good economic policies.

(Mario Centeno)

I fully agree with what Joaquín said, and I think the last decisions taken in the Eurogroup regarding these crises take all the ingredients that Joaquín mentioned.

It's just a question to a Director Regling. It's about the Pandemic Crisis Support. Because, in some countries, including Italy, there are a lot of concerns about possible ex-post conditionalities. I know that there is a political agreement not to enforce conditionality at any moment, and you also repeated that there is no conditionality attached to those credit lines. But there is a fundamental problem. Article three of the ESM treaty says, and I quote, that "the purpose of the ESM should be to mobilise funding and provide stability support under strict conditionality." So I think that there is a legal problem, which is it is not that easy to overcome in the in the short term. But don't you think that the treaty should be revised in the medium term just to make the ESM more adapted to the new conditions?

(Klaus Regling)

Thank you. Yes, I can answer that. You're right that on the one hand, the ESM Treaty requires conditionality for lending. But under these circumstances, our Board of

Governors decided that for this particular facility, the conditionality will be the earmarking of the loan from the ESM for financing Covid-19 related expenditures, direct or indirect expenditures. That was a way to satisfy, on the one hand, the requirements of the ESM Treaty, and the different legal services of the different institutions have agreed that this is appropriate to do under the circumstances.

So I think if there is still fear that there is something else behind our approach, I hope that this is really no longer the case; it was there in the beginning. I think after all the statements that our ministers, our governors and I have made repeatedly, I think everybody should be aware now that the only condition is to link our loan to expenditures on health and Covid-19. There is nothing else. And all the documents are available on our website and can be checked. So I think this should no longer be a problem.

A question for the independent evaluator and the Managing Director. First of all, in the report of the evaluation, you highlight as the biggest problem, the lack of ownership. So practically what can be done so that we have ownership in a future situation or what could have been done in the past to avoid this lack of ownership that's now identified?

And secondly, on the other report [ESM 2019 Annual Report], we see that Greece makes a saving of something like €14 billion in 2019. This figure was also high in the previous year and the year before that and every year. And though the Greek authorities do not contest these savings, we hardly ever hear the Greek authorities mentioning this number. And that's quite evident in the policy making, even right now, where Greece went out to the markets and borrowed money from the markets with an interest rate of 1.5 something, while the similar ESM line was practically at zero interest rate. How do you comment on that whole situation and how can we avoid it in the future?

(Joaquin Almunia)

I can take the first question regarding ownership or the lack of ownership. I think looking backwards, the increase in ownership should have proceeded with a deep and serious analysis in Greece, by all the Greek political leaders and the economic and social partners. What were the origins, the roots of the crisis that triggered the need to ask for a programme in 2010?

Why Greece had so serious imbalances, bigger than any other member of the euro area? How can this be solved in the future? I think this is a question that I put forward to many of my interlocutors during the interviews in Greece, as I did in the past when I had some responsibilities in the Commission, in my contacts with the Greek interlocutors. I think this is needed to learn from the past mistakes as it's needed to learn now, for the successes of having reacted positively to the implementation of the programmes and reaching a good completion in August 2018 of the third ESM programme.

And looking forward, my question is how this commitment with reforms, how these sound economic policies will be maintained into the future once there are no troika visits in Greece, once there is no new money that will come from the disbursement of the ESM, once the future will let the Greek political and economic authorities alone to adopt the right decisions, to make sustainable the achievements that Greece has now thanks to the implementation of the programmes.

(Klaus Regling)

Let me add to that that indeed I fully agree with Joaquín Almunia. It's necessary at the outset of a crisis to analyse why a country is in a crisis, why market access is lost. And then continuously explain what needs to be done to overcome those problems. I think this is particularly relevant for all institutions involved. We do have a role to play. And one really has to convince public opinion of the right approach. And this was particularly difficult in Greece. We know that in some of the other countries that benefited from EFSF and ESM lending, there was an easy understanding what was at the origin of the crisis and what had to be done to overcome it.

But I take it for the ESM at least, and I'm sure the Commission will also accept this, that it's our role in such a situation to communicate very clearly with all segments of society in a country concerned.

On the savings that the Greek budget derives from the huge amount of lending coming from the EFSF and ESM, the €14 billion last year, I talk about it whenever I am in Greece, which happens several times a year. I have talked about that in interviews on Greek TV, sometimes even with the Greek finance minister coming from different parties, standing next to me.

So the numbers, as you say, are indeed not disputed. If you think the Greek government should use the number on its own more frequently, you probably have to ask them why they are not doing it, because it indeed is significant and it will continue for a long time because our average maturity is 42 years and our loans will not be fully repaid before the year 2070. So Greece will benefit for a long time, and that is indeed for the benefit of all Greek people.

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