

Klaus Regling at Eurogroup video press conference

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Transcript of remarks by ESM Managing Director Klaus Regling Video press conference after Eurogroup meeting 3 November 2020

Good evening, I also want to begin by saying that on behalf of the ESM, we are dismayed about the terrible terrorist attacks in Austria and France and offer our condolences.

This afternoon, we had a range of important discussions in the Eurogroup. You heard about that from the Eurogroup President and the Commissioner. I will focus on only two points. First, the economic outlook and challenges in the euro area. Clearly four European countries are now in the second wave of the pandemic. This deterioration of the health situation weighs on our economies and has substantially increased the risks of a double dip recession in the euro area. But in my view, the downturn will not be as bad as it was in the spring, as also Commissioner Gentiloni said. I think we are protected well by the decisions taken earlier this year. Nevertheless, what we consider to be downside scenarios until recently are now becoming our new

baseline, it seems. Market reactions are contained for now, largely due to earlier decisions and the ongoing policy support from national and European level.

So, as the President said, we are better able to respond to the crisis now than earlier this year. Clearly, maintaining policy support remains crucial to minimise the lasting damage to the economy, and recent developments may require further policy actions. The European safety nets in place offer a robust umbrella also in the current situation where the second wave is unfolding. You heard about the different elements of the umbrella - from the ESM, the Pandemic Crisis Support is operational. It is in place and can be requested until the end of 2022.

The second point I want to talk about is the euro as a digital currency. I think it was very important to have this first debate today in the Eurogroup. In my view, a digital currency can be a major step in the modernisation of the financial system in the euro area. The ECB driving these efforts is necessary to make this step effective and safe, as commercial transactions already today are almost exclusively electronic. A digital euro may be the ultimate booster for highly efficient and instant retail and wholesale payments by euro area citizens and businesses. I think it was very good to have this discussion today, and I also want to mention that the digital euro can be an important element to strengthen the international role of the euro. So it is in Europe's interest to make progress on this. And I was glad to hear in the discussion this afternoon that all participants are united in this goal of promoting the international role of the euro. The digital euro could protect the euro against threats from private payment solutions, from first movers under foreign jurisdictions and from foreign political interferences. Thank you.

Response to question on whether additional policy action may be needed

When I mentioned that the current situation may require additional policy action, I was mainly thinking about what's happening at the national level. And we see that some countries have put in place over the last 10 days indeed additional fiscal measures to support those enterprises and people who were particularly affected by this partial lockdown that's happening to stop the second wave. So we see that happening. I think at the European level, we still have many measures in place that are not at all used so far. So I don't see a need there for the moment to do anything else.

Response to question on liquidity in resolution

Liquidity in resolution indeed is a gap in the architecture of the banking union that we have not closed so far. It is a topic that is of particular interest also for the ESM, because if one day, the backstop from the ESM to the Single Resolution Fund is used to finance bank resolution, then of course we would have a great interest to see that also potential problems on "Monday morning" [after a bank resolution during the weekend] with liquidity would not put into question the whole operation.

Therefore, I think this is something that needs to be solved. We do have some time still, because also the backstop is not in place yet, but we hope to make that possible soon. There are several ideas on how to address this liquidity in resolution issue. But there is no easy solution. So it was important to look at the different options today in the Eurogroup and to agree that the technical work will continue and the Eurogroup will look at this again early next year. Thank you.

Question on whether the ESM would change the conditions of the Pandemic Crisis Support to make it more attractive or if the worsened situation would be enough to push countries to request the facility now

The elements of the Pandemic Crisis Support will not change. It is financially attractive for at least half of our Member States because the funding costs of the ESM, given our triple A rating, are below the funding costs of more than half of our Member States. So it is financially attractive. We know that there is a political debate in some countries; some countries were afraid of market stigma. I think it's well understood now that markets do not attach a stigma to ESM lending, actually quite the opposite, because markets understand very well that countries that use Pandemic Crisis Support would save debt service payments. So it's actually credit-positive.

Rating agencies have also made this point in writing in their reports on different economies in the euro area. So what is needed I think is to explain well how it helps economies, that it's not negative. But at the same time, one should also remember that it's available until the end of 2022. So there is no urgency to use it now. For some countries it was rightly more urgent to make requests for what is available under the Commission's SURE programme because the deadlines are much closer,

so countries focus on that. And they have two more years to come to the ESM if they want to do that.

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