

Klaus Regling at Eurogroup video press conference

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Transcript of remarks by ESM Managing Director Klaus Regling Video press conference after Eurogoup meeting 18 January 2021

Good evening from Luxembourg and also best wishes from the ESM for the New Year to all of you. As you heard from the President [of the Eurogroup] and the Commissioner, we had an important discussion on the emergence or deepening of

imbalances due to the COVID-19 crisis. I would like to underline a few points that are also relevant for financial markets.

As we all know, some Member States are much more affected by the pandemic than others. Although support programmes adopted last year were precisely designed to cushion this effect by providing more help to the most affected countries, the pandemic seems to create imbalances in the euro area which could hurt the single market and lead to wider economic divergences within the euro area, if not addressed.

In the past, such developments would have caused immediate market reactions and concerns about debt sustainability. This has not occurred this time, and rightly so, because the circumstances are different compared to the great financial crisis a decade ago. The COVID-19 debt shock is an external shock that has hit all euro area economies at the same time, and countries are much better prepared than they were during the euro crisis. At that time, a number of countries had different types of imbalances, like real estate bubbles, loss of competitiveness, which led to huge current account deficits and unsustainable fiscal situations in some countries.

These imbalances required serious adjustment. That's why ESM loans came with conditionality at the time. The ESM loans today in response to the pandemic have no such macro conditionality and the mere availability of these funds - our Pandemic Crisis Support is available until the end of 2022 - has already had a positive impact on market confidence and financing conditions. But this does not mean that we should not remain vigilant. Financial markets look for clear signals that countries implement necessary reforms and investment to boost productive capacity and potential growth and to address imbalances.

It is clear that this crisis will take its toll on our economies and leave long-term liabilities in the public and in the private sector. The accumulation of debt should be reduced as macroeconomic conditions allow it. Public spending should ensure the needed longer-term growth benefits. This is why the Commission's recommendations that Member States make effective use of the EU measures are highly relevant, and the Commission's Recovery and Resilience Facility is rightly linked to encouraging reforms and investments. The Commission approach will also support the necessary coordination of fiscal policies among Member States, as was mentioned by the President. And this is particularly relevant for Member States of the euro area.

A final sentence on the interesting discussion we had with Larry Summers. He brought a truly global perspective to our discussion. He rightly emphasised that we cannot overcome COVID unless developing countries are also helped in their vaccination efforts. And as you already heard, he was very optimistic on future US-European cooperation and on the US commitment to multilateralism with the new administration. And I think this is truly encouraging. Thank you.

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