Klaus Regling at Eurogroup video press conference (February 2021)

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Transcript of remarks by ESM Managing Director Klaus Regling

Video press conference after Eurogroup meeting

15 February 2021

Good evening to all of you from Luxembourg. Let me add a few words from an ESM perspective on our interesting discussion on the economic situation and the outlook.

I can say what I hear from financial market participants; they have, of course, their own forecasts. Some are a bit more pessimistic. Others are more optimistic. I see growth rates between 2.5% and 5.5%. But if I average all that out, it's very similar to the forecast that was released by the Commission last week.

I also hear that investors are concerned about the speed of the implementation of the recovery and resilience plans and facility. Of course, they are very positive on that decision that was taken last year. But they are worried that delays might affect negatively growth rates. And I think in that sense, it's good that the relevant regulation has been adopted now, and that is good for market confidence. And they will now focus on the speed of disbursement and the quality of the reforms that will be supported by the Next Generation EU. Market participants, in a way, are also waiting for the fiscal guidance that will come from the Commission and the Eurogroup in spring, as the President [of the Eurogroup Paschal Donohoe] and the Commissioner [Gentiloni] said.

On the international role of the euro, that is, of course, an ongoing debate that has happened many times, but also in the Eurogroup. But the communication issued by the Commission in January, I think, was a very good basis for the discussion today. I have argued for a long time that a stronger international role of the euro would add to the stability of the international, monetary and financial system. During the last decades, we have seen several times that an over-reliance on the US dollar has risks, particularly for emerging markets. We saw that during the Latin American debt crisis in the 1980s and the Asian financial crisis in the 1990s, and also the recent episodes where the dollar was used as a policy tool reminded us that this is not good from a European perspective.

In my view, the international monetary system is gradually, of course very slowly, moving towards a mulit-polar system where three or four currencies will be important. And that would naturally reduce dependence on the dollar. But we should not only look at the dollar, the Chinese currency, the renminbi will likely become one of these global currencies over time. Today the renminbi is still far below the euro's status. But it's moving up and catching up very quickly. Because of the strong growth of the Chinese economy, its weight in the world economy, China will become the biggest economy in the world very soon. And because also the Chinese authorities have declared it a political priority to reduce the dependence on the dollar. For the euro to strengthen its international role, it is essential that we continue to work on deepening the economic and monetary union.

And therefore, all the elements mentioned in the Commission's communication of last month are important in this respect: completing banking union, progress on capital markets union, further developing the architecture of monetary union, strengthening the financial infrastructure, the digital euro and more safe assets.

And on this last point, on safe assets, the decisions taken last year were important to increase the volume of European safe assets, as also Commissioner Gentiloni said. But to recall, we had a year ago, just the moment when the crisis started, we already had a stock of European assets of about €800 billion - bonds issued by the EIB, the ESM, and the Commission. But with the decisions taken last year - Next Generation EU, SURE, some more EIB activities, this can go up to €2 trillion over the next few years. And I think that is positive also for the international role of the euro.

Just a quick word on the solvency of the corporate sector. I agree with what the President and the Commissioner said. It will be important to monitor the solvency of corporates because rising insolvency could affect negatively the banking sector, but also increase possibly public debt. In this context, it's good to remember that with the ESM becoming the common backstop to the Single Resolution Fund next year, we have created a strong second line of defence in case it's needed. And although I do not expect that it will be actually needed, it is reassuring to have such a safeguard in place. Thank you.

Response to question on a letter from the Greek government to the ESM regarding the early repayment of IMF loans

This was not on the agenda today, but if the President allows me to answer very quickly, I can confirm that the letter has come in from the Greek government. We are in the process of working on that. There was preliminary discussion with member states in the Eurogroup Working Group two weeks ago. From the ESM side, we look at this positively, because Greece will be able to save some debt service payments. It’s also not the first time we are doing this – Greece repaid already in November 2019 €2.7 billion to the IMF. Now the request is €3.3 billion. We need a process because without a waiver, Greece would be forced to repay also other creditors, particularly the ESM and EFSF, if they repay the IMF. But like in November 2019, I hope that member states can agree to grant this waiver again. If everything goes well, I expect this to happen by early March.

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