

Press conference after Annual Meeting of ESM Board of Governors 17 June 2021

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17/06/2021

Press conferences

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Transcript of remarks by Paschal Donohoe and Klaus Regling

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Remarks by Paschal Donohoe, Chairperson of ESM Board of Governors

Just a few words from me. While I've had many opportunities to attend these annual meetings in recent years, it was my first time participating as Chair of the Board of Governors. I just want to thank Klaus and all of his staff not only for a very effective and well-organised meeting, but also for their contribution to Europe over the last 12 months. I also want to thank in particular the Managing Director of the IMF, Kristalina Georgieva, for attending the meeting virtually today, and for her very interesting appraisal regarding where we stand now, and for the role which organisations such as the ESM play in supporting recovery here in Europe and across the world.

We also reviewed the 2020 activities of the ESM, and unanimously approved the Annual Report and financial statements without any qualification. We also discussed and approved a proposal to allocate the net income of the ESM to the reserve fund. As in previous years, it was agreed that in the current negative interest rate environment, it's important to do this in the interests of the preservation of the paid-

in capital of the ESM.

Just a few words about the activities of the ESM over 2020. The work included, for example, the continued refinancing of €262 billion of outstanding claims, the continued management and development of investor relations, and the management of €84 billion of its paid-in capital.

Throughout the year, the ESM continued to work on its comprehensive risk management system, its early warning system for countries that have exited programmes of financial assistance, undertook follow-up work to recommendations from the previous Evaluation Report on financial assistance to Greece, which was published last June. In the face of the pandemic, the ESM was capable of adopting its existing instruments even without amendments to the Treaty, which we expect to enter into force by next January.

We saw an outstanding level of cooperation and flexibility across the political and institutional environment in the European Union, resulting in a coordinated Eurogroup response and agreement last April in relation to the three safety nets: for workers, which is SURE; for businesses, which is the EIB Pan-European guarantee; and then for sovereigns - the ESM Pandemic Crisis Support, which is based on an existing precautionary facility of the ESM, the Enhanced Conditions Credit Line (ECCL). The ESM makes available through the Pandemic Crisis Support instrument, a credit line with a total value of €240 billion on favourable financial terms to countries which may need it.

Throughout 2020, the ESM also enhanced its activities in the area of environmental, social and governance investment. This includes investing circa €4.5 billion paid-in capital in green, social and sustainable bonds, and the creation of a social bond framework for the Pandemic Crisis Support instrument.

The ESM also joined the European Commission's Platform on Sustainable Finance as an observer and continued its membership to the ICMA Social Bond Working Group. And I look forward to seeing the development of this really important workstream in the ESM over time.

We are also, it should be noted, at an important point in the development of the ESM: the reform of the ESM Treaty, signed in January, is a crucial stepping stone on our path to strengthen EMU and an important complement to our efforts in supporting economic recovery. It will boost confidence in the euro. In addition, it also

addresses a critical gap in the banking union architecture by empowering the ESM as a common backstop to the Single Resolution Fund (SRF) from the beginning of next year, and with the recognition by all of my ministerial colleagues of the really important role of ESM and the role it could play in the future.

In parallel to the national ratification procedures, which are ongoing in most member states, Klaus and his team are working very hard to prepare the ESM so that it can implement its enhanced mandate from the beginning of next year.

The Board of Governors are also preparing to take the necessary resolutions to activate the common backstop to the SRF. And I am confident that our collective effort will help the ESM to further develop its potential crisis resolution capabilities.

Before I hand over to Klaus, I just want to say a few words about today's Eurogroup meeting as well. The main feature of our discussions, which will take place in inclusive format this evening, are about the future of the banking union.

This is a really important topic for me and for the Eurogroup, into which a huge amount of effort has gone in in recent weeks and months. We've made a lot of progress, which I do believe sets the scene for agreement at a later point. But if I look at the mandate which I received, which I set for myself, too, of agreeing to a work plan that is credible and that is ambitious and creates the momentum to action and agreement - with that spirit, we will return to our work later on in the year to make agreement on a programme. And I'll be thanking all of my colleagues in the Eurogroup for the spirit and the work that went on to get to this point. But we will be recommitting ourselves to the continuation of that work and to agreement at a later point.

There will be two other important debates which we will have today. First, we'll discuss the economic outlook of Greece and its progress with reform implementation. It's really been excellent, particularly in light of such challenging circumstances. That is why I am confident that the Eurogroup will confirm the release of a further tranche of debt relief in Greece's favour.

We'll also take stock of Bulgaria and Croatia's accession path to the euro. The Bulgarian lev, the Croatian kuna were included in the Exchange Rate Mechanism (ERM) II almost one year ago. Our colleagues in Bulgaria and Croatia have put a huge deal of effort into getting to this point, and both governments are in the process of implementing the reforms that are needed to allow them to meet the

necessary requirements to become members of the Eurozone.

And I look forward to hearing presentations from both of my colleagues in relation to the work. So although there is still some way to go, let me just conclude my remarks by emphasising how much the prospect of having two new members joining our community is an important reminder of the success of our currency, the second largest in the world, and a really clear symbol of our commitment to a shared vision for the future. Thank you.

Remarks by ESM Managing Director Klaus Regling

Good afternoon, and if you allow me just to add on the last point, at the start of monetary union, we were only 11 countries. Sometimes people forget, now we are 19. So to add two more eventually is really quite impressive looking back and a strong indication how attractive the euro has become. But back to the ESM annual meeting, of course, it's very nice that ministers could come to Luxembourg again. A year ago we had the annual meeting in a virtual format.

So there is some normalisation here. And going through the annual meeting, of course, I inform Ministers, Governors about the main activities of the ESM last year. It's their institution. The 19 Member States gave us capital. It's their money that we must manage carefully and we use it to provide loans or refinance loans that we gave to five member states between 2011 and 2018. Last year, of course, Covid-19 was the big issue for everybody.

Also for the ESM, Covid-19 transformed not only our lives, but also led to the worst economic contraction in Europe since the Great Depression. And therefore, it also meant transformation for the ESM. Europe acted fast, as the President explained, to stem the negative consequences of the crisis, and the ESM contributed with its Pandemic Crisis Support. The concerted action by European institutions and, of course, national governments calmed financial markets and made it easier and cheaper for European sovereigns to finance themselves in the market and the amount of financing skyrocketed in response to Covid.

But as a result of all that, I'm sure it's fair to say that we prevented the public health crisis from turning into a full blown financial crisis. Our annual report that was approved today, and I assume that all of you will read it tonight. There are many interesting facts and good stories that looks at last year's developments in some details. The President mentioned some of the key figures of our activities. I will not repeat that, they are in the report.

But the report also focuses on the five former programme countries, Greece, Portugal, Ireland, Spain and Cyprus, how their economies fared amid the challenges of the Covid-19 crisis. The EFSF and the ESM together disbursed almost €300 billion in loans to these five countries, a bit more than two thirds of that to Greece alone. Most of that money is still outstanding in these countries. And therefore, developments in these countries are obviously important for us because we are the largest creditor of these countries.

The report also mentions the reform of the ESM. The president talked about that. I think they are indeed important, they give us additional work to do and we are preparing ourselves for that. The ratification process is ongoing. It started in February this year; one country, Slovakia has already completed its formal ratification procedure and Germany's Bundestag decided positively on the ratification last week. Next week, the second chamber will vote and I am very sure they will also vote positively.

Austria has already done it. And in the Netherlands, the parliamentary debate is also underway. And several other countries are very close to completing the procedure. And we expect the ratification process to be completed before the end of the year so that the backstop can become operational early next year, as was decided. During the pandemic, the ESM also cooperated closely with our international peer institutions. In particular, we kept close relations with the other regional financial arrangements, the RFAs and with the International Monetary Fund.

Kristalina Georgieva, as you heard, the managing director of the IMF joined this year's annual meeting and talked about how in response to the pandemic crisis, RFAs and the IMF intensified their exchange. If anything, the experience of the pandemic crisis has taught us that Europe needs to be prepared for unforeseen shocks. The ESM as a regional financial arrangement for the euro area, while other world regions have their own RFAs. Together, they are the regional lines of defence in the global financial safety net.

The combined lending capacity of all these RFAs is actually slightly larger than the lending capacity of the IMF. And that already indicates why we need to work closely together to make it effective. With the pandemic crisis support, we have shown that we can adapt our toolkit to changing circumstances and after ratification, the amended ESM treaty will make the euro area more resilient to future shocks. Through its bond issue and see as we continue to provide safe euro assets to investors like the EIB and the European Commission.

Of course, this pool of safe euro assets will now increase significantly as a result of the Recovery and Resilience Facility. And all this will contribute to strengthening the international role of the euro, which I think is good for European sovereignty and also good for the international financial system as a whole. Thank you very much.

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