

ESM Annual Meeting press conference: Q&A

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Transcript of Q&A session with Paschal Donohoe and Klaus Regling Press conference after Annual Meeting of ESM Board of Governors 17 June 2021

Question on why talks to create a work plan on banking union would be more successful after the German elections, and whether it was disappointing that a working plan was not agreed.

Response by Paschal Donohoe

I'm confident that we will make progress towards delivering a work plan on banking union, and the reason why I'm confident is I look at the progress that we have made in recent weeks and months on the four different workstreams of banking union. With regard to each of them, there is further work that needs to be done, further compromises that have to be identified and then delivered. This is an area that is, as you all know, very sensitive. But the prize is great - and that prize is creating a European banking system that is even more capable of contributing to the growth of jobs and investment in Europe. And I'm confident that we will get there. Our confidence is based on the huge amount of engagement that I and my team have had with all governments across Europe and the progress that we had made in the work plan. But with the time that was left, it wasn't sufficient to deliver what I believed was critical in such a work plan, which is one that is credible and one which is an incentive to further action and creates momentum to further action.

With regard to your point about the German election, as critical as the German election is, and of course, it is a feature of our European family - elections are of the essence of it. There are elections that are always either taking place or the consequences of elections are still playing out. So they're always there. And even with that rhythm of elections, the European Union makes progress. It makes progress incrementally but solidly. And we will continue to do that with banking union.

Response by Klaus Regling

Not much to add, because I have worked for 40 years on European integration and I have seen it many times that one is disappointed because things don't move as quickly as one would like, but then they move in the end and the work continues. And a lot of work has already happened and we have seen tremendous progress. Ten years ago, nobody knew what a banking union is. The term was invented in 2012, and since then we have created a single European supervisor, which was unthinkable. Then monetary union was created. We have a resolution framework and an institution that is in charge of that. Now, it was decided that the ESM would provide a backstop to that Single Resolution Fund. So there is tremendous progress. But we know there are some gaps left and I'm sure we will close those gaps in the next few months. Or we will close the gaps, but we will agree on a work plan how to close the gaps, to be more precise.

Question on what is expected to happen in 2023 regarding Greece's fiscal commitments, such as the primary surplus. And on whether there could be some overlapping with regard to conditionality for enhanced surveillance and the recovery fund.

Response by Klaus Regling

On the question of the fiscal policy after the end of the pandemic, we are all aware that the large fiscal deficits in all our Member States and basically all countries around the world are experiencing right now, will have to be reduced. Some of that

will happen automatically and actually in all European countries, because the countries put in place temporary measures in their fight against the economic consequences of the pandemic. And as these temporary measures expire, there will be an automatic reduction in fiscal deficits.

And that's also true for Greece to a large extent, because almost all of the measures that were put in place since March last year when the pandemic hit, are temporary. So when they expire automatically, the Greek fiscal situation will improve quite significantly. On top of that, I think the Greek government has talked publicly about their intention to have a primary balance in 2023 and after that, small surpluses. I think that is the right direction.

The fine tuning and the budgetary measures needed behind that, of course, have not been discussed so far because there is some time. We all agreed that the general escape clause of the Stability and Growth Pact will continue to be in place next year. But then next year, we will think about the subsequent years. But I think so far I what I hear from the Greek government, and I had another meeting with the finance minister, Mr Staikouras, yesterday afternoon at the ESM, is that things seem to be moving in the right direction.

Response by Paschal Donohoe

And just to deal with your second question, I mean, firstly, we will be confirming later on today for the positive news with regard to Greece, which is a recognition of the continued progress that the Greek government and the Greek people have made in the most challenging of circumstances. And Minister Staikouras will be giving all of us a presentation later on, updating us on the work that he and the government have done and the further work they plan to do in the future.

And it's a sign of the confidence that we have in those efforts and also a recognition of a success of their efforts to date that the process will continue this afternoon, in relation to further debt relief for Greece, in relation to the recovery plan and the interaction between that and enhanced surveillance. I don't see them being in any way inconsistent. Indeed, I understand that President von der Leyen is in Greece today, where they will be acknowledging the further really big progress that has been made on the recovery plan.

Minister Staikouras has given us a presentation on the Greek Recovery and Resilience plan, and the Commission has evaluated that against the criteria of the RRF, and I think that process is going really well. So today is just another another very important step in the very positive progress that has been made.

Question on what effects the process of spending money from the Recovery and Resilience Fund by national governments will have on the European economy?

Response by Paschal Donohoe

I think the process has been being very, very thorough and has been a very good execution by the Commission of the mandate that they received from the European Council for the really significant decision about setting up the Recovery and Resilience Fund. And I say that for two reasons. Firstly, putting on my hat as Minister for Finance of Ireland, and also talking about this process with many other finance minister colleagues. The Commission has been really clear in their reform agenda, very thorough, very persistent and very demanding at times.

So they have ensured that the plans that are going into the Commission meet the criteria for a green and digital transition. And the Commission has also been very, very rigorous with all Member states in relation to the expectations that they have for them, for further reform and making very detailed agreements in relation to that further reform. And I've experienced this myself in the engagement I've have had with them. I think they've done a really good job.

And then secondly, they have got the balance right between speed and doing that job. So to be in a place now where in a number of weeks, really important decisions will be taken about the adoption of RRF plans - that is really good progress at exactly the time in which the European economy needs us.

In relation to the impact that they will have on the euro area performance, particularly across 2022, as you know, the Commission has revised upwards the growth forecast for the euro area for both this year and for next year. But I continue to believe that these plans are going to give a real boost to employment, recovery and investment in the euro area at exactly the time the euro area will need us. Because what you are seeing is really strong national measures last year and this

year. They propelled the recovery, enabled by the safety nets that Klaus and I touched on earlier on, and it is at the point in which national governments begin to make changes in national support plans, that the funding from the recovery funds will begin to become available. And I think the scale of that funding and the timing of that funding is all happening at exactly the point governments will need us. So I think they've got the balance right. It's been a demanding process and they've executed it really well under a lot of time pressure.

Question on whether Portugal is running the risk of being isolated in the EU with funding difficulties. And to what extent Portugal and Greece, with their huge public debt, can see themselves in complications again, once monetary policy becomes less expansionary and European rules are enforced again.

Response by Paschal Donohoe

In relation to both questions, I'm really confident about the ability of the Portuguese economy to recover. The consequence of that recovery will be the natural improvement in its public finances. Much of that recovery will be driven by a return to employment and a return to economic growth. And Minister Leão and Prime Minister Costa have put together, I believe, a very strong recovery plan that will be coming at the very point in which the Portuguese economy and the Irish economy will need us across next year.

They have in common the need that we all do for additional support and additional investment as we move beyond the acute phase of the public health crisis. So I and my colleagues have very strong confidence in the ability of the Portuguese economy to recover. And I believe, as I said, that the recovery plan will make a strong contribution to it, and that of itself will drive the kind of change in public finances that will help with the other challenges that they and many other countries face at the moment.

Response by Klaus Regling

Maybe I can add, because if I understood correctly, you said, can there be a problem like 10 years ago? I think it's really important to understand the difference between the current crisis, which was triggered by an external shock, and all countries around the world suffer from Covid-19. Of course, countries in particular with a strong tourism industry suffer more than some others, but all suffer. Unlike 10 years ago, when there was not a common shock but a number of countries in Europe had really serious problems, particularly with competitiveness.

So there were significant macroeconomic imbalances in the two countries you mentioned, Portugal and Greece, and a few others that needed to be tackled. And that was painful because that required some real adjustment. That's not something we need to worry about today because there are no macroeconomic imbalances that need to be corrected. We had to find the right response to this external common shock. That's expensive. That's why debt is going up in all countries. But it was the right response. And I think all our Member States are able to handle this higher debt. And there's not a need that was so painful 10, 12 years ago to correct the accumulated macroeconomic imbalances.

Question on the main challenges for Greece in the coming months

Response by Paschal Donohoe

The Greek economy, like many other economies across the European Union, of course, face challenges in relation to how tourism can recover, in relation to how travel can recover. And for many economies, from the Greek economy to the Irish economy to other economies across the euro area, we, of course, do see very active summers have been an important part of our economic recovery as tourism recovers and as travel recovers, and this is a shared challenge that we face.

It's a shared challenge as Europeans feel safe to travel again, and ensuring that the access is there for them to actually do their travel, as the aviation industry begins to recover, but I have every confidence in the ability of the Greek economy to be able to confront and overcome those challenges. The work that the Greek government, Minister Staikouras, and the Greek people have been doing meant that when this awful disease hit Europe and hit Greece, much change had already happened.

Huge improvements are taking place and our national finances and the combination of the reform plans that are being implemented and the Recovery and Resilience plan, which is a really strong plan developed by the Greek government for the Greek economy. The combination of both, I believe, will drive the Greek economy to the restoration of economic growth.

Response by Klaus Regling

No, absolutely, and Greece has to deal with problems that all our countries face. They know that and they are working on that, given that tourism is so important for the Greek economy, it will be a bit worse before the old numbers are back, and that will not be this year. On top of that, of course, Greece continues to implement reforms and they are described in great detail in the enhanced surveillance report that the Eurogroup will look at this afternoon.

Greece is on a good way, that's the main conclusion of this report, but it doesn't mean that everything has been solved. Areas still exist and have not been eliminated. The Greek banking system continues to have the highest non-performing loan (NPL) ratios of any banking system in Europe. NPLs have come down, as agreed also with Single Supervisory Mechanism, but they are still the highest in Europe. Good progress, but one needs to continue to work on that. Insolvency procedures need to be implemented. But on the banking system, there's the question mark whether the Greek banks are able to provide all the credit that is needed to finance a recovery. So there are issues, but the Greek government is fully aware of those. We are in close contact. As I already said, next month and July, I will again be in Greece to continue the dialogue with the Greek authorities, and we will prepare the next enhanced surveillance report.

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