

Klaus Regling at Eurogroup press conference, June 2022

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Press conferences

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Transcript of remarks by ESM Managing Director Klaus Regling Press conference after Eurogroup meeting 16 June 2022

Good evening to all of you. As the President said in the beginning, this was a special day - not only because of *Ulysses* [the centenary of James Joyce's novel, highlighted by Eurogroup President Donohoe]. It was also a special day for the ESM because we had our annual meeting, where the ministers come to the office of the ESM - about 2

km away from here in Kirchberg. And it was the first time again in person in our building because the last two years we had virtual or hybrid meetings. And so the 19 finance ministers who also sit in the Eurogroup - they are at the same time our governors. And as observers we had Commissioner Gentiloni and ECB President Lagarde. It was also special because it was the ESM's 10th anniversary. So one decade of ESM and of course that was an opportunity to look back at what has been achieved together. And the euro crisis is already a distant memory. But it's important to remember that we have come together a long way, and the ESM played an important role here. It's also good to remember that those countries that required financial assistance from the ESM, and before that from the EFSF, really put their economies back on track. And these economies had after the end of their programmes an economic performance that was better, significantly better than the average of the euro area.

Another important benefit is that the lending from the ESM to these countries continues to contribute to budgetary savings in these countries, because the countries all benefit from the AAA interest rate at which we issue bonds - we pass on these funding costs to the borrowing countries. Most of the loans are still outstanding, so the countries continue to benefit. And we calculated that the five countries over the last decade saved €110 billion in interest savings. And these are budgetary savings, €110 billion less in interests cost on their public debt. And this of course helps countries like Greece to return to debt sustainability and the money, particularly in Greece, will be there for 40 more years.

We also talked about what happened last year. An annual meeting means our shareholders have to approve the financial accounts. All that is written down in our Annual Report, which I recommend highly to you. It's on our website. We also discussed how the ESM could continue to help the euro area in the future to maintain financial stability and that work will continue.

A few remarks on the Eurogroup meeting this afternoon. From the ESM perspective, we had an interesting discussion about the economic situation and market developments. Of course, the ESM is a participant in financial markets, and there we do see some tensions at the moment. There is more volatility than we have seen in a long, long time. When you see how the yields and sovereign bond markets jump up and down every day, that's the kind of volatility we have not seen in a long time. There is reduced liquidity. But we do know that when markets adjust to new circumstances and they are doing that right now, the circumstances have changed.

There's higher inflation, there's monetary tightening. And I'm not talking only about Europe. This is also happening in the United States, of course, in the United Kingdom. Also Switzerland raised interest rates today. So there's a new environment to which markets must react. It's unavoidable. And when such adjustments happen, we know that from the past, then there can be tensions, there is volatility, there can be overshooting. So all that is not unusual until markets find the new equilibrium.

At the same time, I very much want to support what the President and the Commissioner said. The euro area is much more resilient today than ten years ago. And that of course is important when we assess these market developments. We are more resilient because the fundamentals are sound in the euro area. There are no big macroeconomic imbalances that we had to fight 10, 12 years ago at least in four or five countries in the area. That was the reason we had to step in with large amounts of loans.

There are no disequilibria like that at the moment. And that's of course important when you look at where markets are going. Fundamentals are good. And we also have an institutional setup in the euro area that is much more solid than 10, 12 years ago. Because you have to remember that during the last decade, a large number of new institutions were created, not only the ESM, but it was also the beginning of banking union with the Single Supervisory Mechanism. We have SRB (Single Resolution Board, SRF (Single Resolution Fund), we have ESRB (European Systemic Risk Board), EBA (European Banking Authority) and EIOPA (European Insurance and Occupational Pensions Authority).

Some of you will remember all these acronyms. The important point is these institutions are there, they exist, they were created in response to the euro crisis, but they also help us to get through this crisis. So that also makes the euro area more resilient.

On euro area enlargement, of course, I am also happy that the ESM will get a 20th member because when Croatia joins the euro area, they will also join the ESM. We have a well-established process for that. It happened already twice during the life of the ESM that we could welcome new members. And that was the case with Latvia and Lithuania. Both countries concluded their accession process to the ESM smoothly and shortly after the adoption of the euro. And there's no doubt the same will be the case for Croatia.

On Greece: as you heard, Greece reached an important milestone today. The end of enhanced surveillance is an important step because it was necessary due to Greece's significant problems at the end of its programme. But now we see that there is very strong progress in the reforms. As you heard also, most of the commitments that were taken by the Greek government at the end of their last ESM programme in 2018 have been fulfilled. Of course, we continue to monitor and we have very good relations with Greece, so that reforms do continue. Greece will get substantial amounts of money under the Next Generation EU programme and it's very important that they continue to implement all the reform commitments under that programme.

The ESM, of course, has a very special relationship with Greece. I have been involved with Greece for the last twelve years when the euro crisis started. So I can really see the progress in the country during this period. Twelve years is long, but the problems were also very big twelve years ago, and Greece is going in a very good direction, and therefore the end of this enhanced surveillance is absolutely justified. From the ESM, we will continue our close partnership with the country because Greece will benefit from our cheap loans for decades to come and that will also help them.

On banking union, I think we can celebrate that we agreed on an important step forward today and I'm sure it will not be the last one, because the benefits of banking union are so clear for the euro area that more steps will follow. But it's very good to start with this particular one.

Thank you.

Response to question on what fiscal steps Greece should take next year, and what an increase in ECB interest rates could mean for Greece.

Indeed a big step today, but at the same time, it's also right to say that Greece faces a particular situation because the debt the debt-to-GDP ratio is the highest in euro area. But then it's very important to put this into the right context because the debt service that Greece has to pay out of its budget on this high debt level is relatively low. It's lower than in some other euro area countries where the debt ratio is lower. And the reason is that 60% of Greek public debt is with official creditors. 50% of the Greek debt is with the EFSF and ESM. I already talked about the low interest rates

that we charge our borrowing countries, AAA interest rates, and they will remain low, even though they also go up somewhat. But AAA interest rates have not gone up as much in the last few months as other interest rates.

In addition, you may remember that one element of the debt decisions that were taken in 2018 by the Eurogroup at the end of the Greek programme was to protect a certain share of Greek debt and to fix the interest rates through derivatives and swap operations. So a certain part of Greek debt is not affected at all by current market moves, even when it needs to be refinanced. So there are several protections built into the programme and therefore I'm not worried that the interest rates that have been rising around the world will lead to any particular problem for Greece.

Of course, it's also important that Greece continues to take the necessary reforms to strengthen growth. Here again, Next Generation EU is the right context and Greece has made very strong commitments for a long list of reforms. And at the same time it has a cautious fiscal path. The Greek Finance Minister confirmed again today in the Eurogroup that there will be a primary surplus in Greece from next year onwards.

Response to question on whether it is feasible for Greece to achieve an investment grade rating next year, and what are the lessons learned from the Greek crisis and euro crisis.

As you've heard many times, Greece has made significant progress over the last twelve years, and in particular even under these difficult circumstances of the pandemic during the last two-three years. And that's also documented by the upgrading that all the different rating agencies have decided upon. The last one happened I think in March or April this year, when Moody's [S&P], I think it was, moved Greece to [BB+], which is just one notch below investment grade. And when we look at the last three years, there have been twelve different upgrades from the different rating agencies. So really a lot of progress. And the objective is the right one - to try to have investment grade, because that would then reflect the progress in the Greek economy, which will continue and would certainly help to reduce spreads and thereby the interest cost on the Greek debt.

I talked earlier that the Greek debt situation is very special because 60% is owed to official creditors and then a large share is even swapped and there's no impact coming from the general rise in interest rates around the world. But it will be important that also the remaining share - the 40% that's financed in the markets and needs to be refinanced from time to time - can benefit from low interest rates. And moving to investment grade, of course, is a big step in that direction.

Lessons learned - happy to spend the next hour here to talk about all that. There are many lessons. We have written a big book on our evaluation of the Greek programmes. The Commission is doing a similar exercise at the moment. Of course, there are many lessons because when the euro crisis broke, it started with Greece. But four other countries also needed financial assistance from the EFSF and ESM. When it all started, we were not well prepared for such a crisis. There was no lender of last resort in the euro area. We had to learn many things and during a crisis, mistakes happen. And I can think, for instance, that the PSI (private sector involvement), which meant in the end, in 2012, the biggest private sector debt rescheduling in world history, €120 billion in haircuts, came a bit late, but we needed time. We were not prepared for that, like for other things, because it had never happened. It was not supposed to happen in the euro area. It became unavoidable. If it had happened a bit earlier, of course it would have been cheaper.

But then beyond Greece, if I draw a general lesson, I think during the first decade of monetary union, we experienced economic and policy developments in individual countries that were not compatible with being a member of the monetary union. And I think all member states have learned that lesson. Maybe there were teething problems; those were special circumstances. Countries moved to a new environment with much lower interest rates than they were used to. Income developments were too rapid in a number of countries, not in line with productivity developments. That's why several members lost competitiveness, had large current account deficits. These are all clear lessons that we know now, looking back. And I'm sure that member states that are now joining the euro area are fully aware of these lessons, so that those kind of fundamental policy problems that occurred during the first decade of monetary union will not happen again. That was a short version.

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