

Klaus Regling at Eurogroup press conference

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Transcript of remarks by ESM Managing Director Klaus Regling

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Let me also start with a few words on the debate we had on automatic stabilisers, because I think it's useful to put it in a broader context. As the President of the Eurogroup said, the first line of defence for stabilisation are national fiscal buffers. It's important to build up these buffers, maybe strengthen them, as the Commission outlined in the meeting. We also have a third line of defence - ESM programmes. This is for crisis times.

In this context, it's important to think about the second line of defence in order to avoid a big crisis. And here the different proposals we have heard over the last few months come in, Pierre [Moscovici] mentioned some of them: the unemployment insurance scheme that was proposed by the German finance minister, the investment protection scheme proposed by the Commission, rainy day funds – like the one that Ireland decided to build up. It can also happen via the revenue, or tax system. Or there could be shorter term ESM lending facilities. These all have the same objective: to contribute to macroeconomic stabilisation, and avoid smaller problems from becoming so big that one has to draw on the third line of defence, an ESM programme, which is really something we want to avoid.

So the first thing is to build up national buffers – the first line of defence, and now is the time that we're doing that, and we will continue to think about how to enrich the second line of defence.

On the meeting we had in the enlarged Eurogroup – a few words on the two topics discussed. First, the precautionary instrument. It's good that the technical work is progressing. But maybe I should explain why this debate is important – it's good to remember that as is the case with many ESM features, the International Monetary Fund has often provided the template when we think about certain facilities, certain approaches, conditionality. This is also the case with the precautionary credit lines when they were initially designed. The IMF uses its precautionary credit lines for countries that are strong performers that have a strong policy framework and a good track record in economic performance. Such countries can face a loss of market confidence, and in such cases the precautionary credit line is a tool for crisis prevention or crisis mitigation. In other words, its point is to prevent a small crisis from turning into a big crisis that would make it necessary that the country asks for a full economic adjustment programme with a large crisis loan and comprehensive conditionality.

The IMF has used its credit line in three countries: Colombia, Mexico and Poland. In all three countries, the credit lines boosted market confidence during a period of stress in international markets. And interestingly, none of these countries had to draw money from these precautionary credit lines. At the ESM, we have a tool that is comparable. It is called PCCL, the Precautionary Conditioned Credit Line that we discussed this afternoon. It is also designed for countries that perform well. The point of our debate today at the Eurogroup was to make sure that these credit lines are accessible and predictable for countries that may need them and qualify for them. At the same time, they should not constitute an invitation for the country not to do its homework in order to avoid so-called moral hazard problems.

In this context, the eligibility criteria are important. There are six of them for the PCCL and we discussed that and it has been mentioned, so I don't need to go into the details. The last point here is to recall that support is also available for countries that do not fulfil all the criteria for the PCCL. For them, we have another instrument called ECCL - Enhanced Conditions Credit Line.

On the second point, in the enlarged Eurogroup this afternoon, deepening EMU and

the role of the Commission and the ESM - the cooperation between the Commission and the ESM has been good in the last few years. It has been quite strong in all the five countries where the ESM provided loans over the last seven years. It has become closer because the ESM has grown into new areas. We can build on that; we fully recognize the Commission's prerogatives, which are enshrined in the EU Treaty, and I see the collaboration between the Commission and the ESM as opportunity for each side to bring its strengths to the table, ensuring that together we are stronger than individually.

We already today at the ESM use analytical tools in the context of our Early Warning System, the programme work and also in our market activities, so that's already the case today. In debt sustainability analysis, our focus is on risks, and it does not provide policy advice, which is the role of the Commission. And therefore I see no way that in the future we would interfere in the coordination of economic policies, which is the prerogative of the Commission. So I think the division of labour is possible; it can be productive. We are working on it, as Pierre [Moscovici] said. 80% is done; the remaining 20% may not be the easiest part, but I'm optimistic that we will also solve that over the next few weeks.

Response to question on two budget scenarios presented by the Greek government

Just to add that it might be considered positive that the Greek government today presented these two scenarios, because they had to present numbers today. But on this specific point, on the pension system, the talks with the Institutions continue, they are not finalised. And therefore given that they had to present something today, it was good to have the two possibilities, and leave it to the ongoing discussions with the Institutions what the final outcome will be.

Response to question on initiatives aimed at strengthening the international role of the euro

Just to complement this important point, and this is also what I hear in my regular contacts with market participants at roadshows, particularly in Asia, there is a growing interest in euro-denominated assets. And this is partly linked to the ongoing trade tensions between China and the United States. But also market participants look at the whole agenda that we are discussing in these months until the summit in December. Making the euro area more resilient, more robust, improving the Capital

Markets Union, Banking Union, creating financial stabilisation mechanisms – all that is looked at attentively, and the more progress we can make on that, the better for the role of the euro in the international monetary system in the future.

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