

Klaus Regling at Eurogroup press conference, 16/05/2019

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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 May 2019

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On the Commission [spring 2019 economic] forecast, a few points from a market perspective. I think it's very clear that markets are broadly in line in their expectations with the Commission forecast; it's quite compatible, including the pick-up in growth in the course of this year. Obviously markets are aware of the risks around that baseline scenario, which are very well spelled out in the Commission forecast. But one can observe that about two weeks ago, when we saw the re-escalation of trade tensions between the US and China, markets were caught by surprise and since then, we have seen an increase in risk aversion globally over the last few weeks. Equity markets are down and credit spreads widened. The Chinese renminbi weakened significantly, followed by other emerging market currencies.

And in Europe, we can also see that this risk aversion, which has gone up, has an impact for those countries where there are some question marks on economic policy and economic developments. And one example of that is Greece, where we have seen credit spreads going up by almost 50 basis points over the last few weeks. We had a short discussion on Greece; the President of the Eurogroup mentioned that. There was the announcement from Greece on budgetary measures. Some of them have been implemented already through parliamentary actions.

We are worried about that. We don't have a complete assessment but our

preliminary assessment indicates that with these measures, the primary surplus target of 3.5% this year might not be reached by a significant margin. And that would be more so next year. Of course next year, a new budget will be needed and measures have not been implemented, so all that is a bit for the future. But for this year, the measures have been implemented and we are also worried about the composition of these budgetary measures, which are not growth-friendly in the medium and longer term.

Of course we will continue to work with the Greek authorities, the Commission obviously, and the ECB. There will be a report coming in the next Eurogroup meeting. But there are these concerns.

On the budgetary instrument, the ESM is not directly involved in that but indirectly of course, we follow that with great interest because anything that helps with convergence and competitiveness is good for the functioning of monetary union and reducing economic vulnerabilities, and therefore I welcome the progress that we saw today. Many ministers also mentioned, and I share that view, that a macroeconomic and countercyclical stabilisation element would be useful; the Commission also just talked about that. I think indeed that would be also helpful for reducing vulnerabilities of monetary union.

Let me add that in the context of deepening EMU, we are making good progress regarding the ESM reforms. Discussions about the necessary changes to our treaty are advancing and we will come back to that at the June Eurogroup meeting, when I am happy to welcome everybody to Luxembourg. Maybe also some of you. We will have the Eurogroup in Luxembourg because it's June and we will also have the ESM Board of Governors annual meeting just before that Eurogroup meeting during the morning of 13 June.

Response to question on whether the decision by the Greek government to change the country's fiscal targets are a violation of the debt-relief deal, and whether this has an impact on Greece's early repayment to the IMF.

I think I would be a little bit more nuanced than what you said – you said that Greece changed unilaterally the fiscal targets, that's not really correct. The disagreement is preliminary because we haven't reached our final assessment. Greece maintains its fiscal target for this year, but there are doubts on our side whether the measures

adopted by the parliament in the last few days are compatible with that. So that shows there is some work to be done, and work will happen, but at the moment, I would not say that questions this years' target – that's a different assessment.

Then, as you know, for 2020 there is the proposal to use some of the cash buffer to reduce the primary surplus. But this will take time; it will be discussed in the context of the 2020 budget, it's not on the agenda right now.

On the early repayment to the IMF, indeed I said at our last meeting in Bucharest that I support that because it could strengthen Greece's debt sustainability if the expensive part of the IMF debt is paid early. I also said, and this is true of course, that we need waivers from the EFSF and ESM member states, and whether the recent announcements on fiscal measures have an impact on that assessment remains to be seen.

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