

Klaus Regling at Eurogroup press conference

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Press conferences

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Transcript of remarks by ESM Managing Director Klaus Regling Press conference after Eurogroup meeting, 8 July 2019

Good evening. As you heard, we really had a full agenda today in the Eurogroup in the different formats. I will focus only on a few items that are of particular importance for the ESM, starting with Greece. Obviously, developments in Greece are of particular importance for us. The ESM is the largest creditor of Greece. We are a long-term partner of Greece, given that our loans run for more than 40 years, and we will work closely with any government that Greek voters elect. So we are looking forward to working with the new government.

The third enhanced surveillance report that was presented by Commissioner Moscovici today talks about the concerns that have come up recently. But it's also fair to say that the Greek economy is in much better shape today than it was, let's say, four or eight years ago. Looking at the fiscal situation, there's also a substantial cash buffer, growth is back, and interest rates in the secondary market are very low. All that is very good, however, we are concerned about some of the decisions taken in the last two months, which were also adopted in the Greek parliament by all the major parties. Because some of these decisions are not good for growth – backtracking on some reforms, not spending the full public investment budget, arrears are still at a high level; all that is not good for growth, therefore not good for debt sustainability. Therefore we need to monitor this closely.

Of course, it depends on political decisions in the second half of this year, and in

particular, as far as the 2020 budget is concerned, how the fiscal path will look like; how measures to promote growth will be implemented. Therefore, the assessment will be done once we know more about the decisions of the new government. I will be in Athens next week; I was invited a long time ago to one of the biggest conferences that always takes place in the summer. So that may be a good opportunity for first contact with the new government.

On Spain, we discussed very briefly today the post-programme monitoring, the ESM's early warning system. Spain of course is a case where the financial assistance programme was very successful and the country came out much stronger and more resilient. The outstanding amount of ESM loans to Spain is only €23.7 billion after several voluntary prepayments. Actually more than 40 percent of the initial loan amount has been repaid by Spain already. And I think that's a strong indication for the success of the programme.

On the follow-up of the Euro Summit, there are the different items: the ESM reform, the budgetary instrument and banking union. Only a few words on ESM reforms: we agreed on a full work programme for the second half of the year. I think the ESM reform items are probably the least controversial compared to the other items. But there is a lot of work to be done to agree on a full range of accompanying documents, lending guidelines and so on. But I am confident that we will be able to agree on this entire package because we already made a lot of progress in the last few months.

Finally on the international role of the euro, I think we had a good discussion there also today. I could add that when I am in touch with financial markets, talking to investors, that I always get the same message. The message is that the euro has the potential to play a stronger role in the international monetary system. And I think that this is even more true given the doubts about the commitment of the US government to globalisation and multilateral approaches. However to get there, to have a stronger role for the euro and the international system, it is important to continue with the path of deepening EMU.

That means completing banking union, advancing capital markets union and also creating a fiscal capacity for the euro area for macroeconomic stabilisation. Some of these items are controversial but this is what I hear from markets and I think it has to be on the agenda for the future. Also strengthening the European market

infrastructure is part of this agenda. The euro as an invoicing currency is important. And finally, for the very long term, the question of a safe asset comes up because the pool of euro denominated assets with very high credit rating is shrinking. And that is one reason also why some interest rates dropped so much, so there is an issue here. I think that is becoming clearer but it is a long-term agenda item. Again that's what I hear in the markets on this topic. Thank you.

Response to question on whether Greece's 3.5 percent primary surplus target can change, and whether the 2020 reduction in the threshold for taxation will take place.

On the 3.5 percent primary surplus, this was a cornerstone of the programme from the beginning. Of course Greece is outside the programme now, but the commitment was already adopted in the summer of 2015 by the leaders at the time. So it's not something new that was invented by the enhanced surveillance report of the Commission or by the Eurogroup recently. It has been a cornerstone since 2015. It is a precondition for additional debt relief measures, and it's very hard to see how debt sustainability can be achieved without that. That's where we are on that number.

On the other measures that you mentioned, the withdrawal of the tax reform of 2020, we know from the election campaign that the new government will focus on a number of tax reform measures. And I think that falls under the category of new priorities, as long as the overall commitment is achieved. It doesn't have to be the old set of measures. I'm sure there will be new tax reform measures, but we have to go and listen to the government on that.

Contacts



[Cédric Crelo](#)

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu



[Anabela Reis](#)

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



[Juliana Dahl](#)

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu