

Transcript of press conference following meeting between Klaus Regling and Petteri Orpo

Helsinki, 9 December 2016

Statement by Finnish finance minister Petteri Orpo:

Ladies and gentlemen, it is my pleasure to welcome Klaus Regling, the managing director of the European Stability Mechanism and the European Financial Stability Facility, in Helsinki and in my ministry. Klaus is one of the key players in euro area stability issues. He has long experience with stability issues with the IMF, the European Commission, and now, the ESM. I think it's very important that you are visiting Finland, and that you have also met our parliamentarians, because the parliament has a big role in our euro policy, and that's why it's important that you discuss also with them.

I think in general it's very important to say that Finnish people are supporters of the euro. By the latest survey, the number is 76%. And we got many benefits from the Single Market, I think that Finnish people know that. Of course the euro has had big problems: the financial crisis, Greece, Portugal, Spain. But we have managed to handle those crises. And now we have a mechanism, the ESM, we have tools to defend Europe.

Today we also have many new challenges and problems, but as I said, we have a mechanism. Today we discussed about new challenges and current challenges – Brexit, the Italian banking sector, and we also discussed about the future of the ESM, the eurozone and the single market. Once again I welcome you to Finland and give the floor to you for your remarks.

Statement by Klaus Regling, ESM Managing Director

Thank you very much minister, good morning, ladies and gentlemen. I'm very happy to be back in Finland. It's not the first time I'm here, it's important for me to visit the member states of the ESM. And Finland has always been a strong supporter of the euro and of my institutions – the EFSF and ESM.

I also had meetings in the parliament yesterday, which is very important because in most of the member states of the ESM, parliaments play a strong role, for good reasons. Because the activities of the ESM require, in the end, the consent of parliaments.

As the minister said, we talked about the economic situation in Europe, stability issues. We do know that there are challenges in Europe: we need to work to strengthen the banking system, we need to work on specific country cases. Greece is still in the middle of a programme and we need to find the right way to help them. Of course it requires that they do the reforms that are necessary. We do have a rise in populism in many European countries. There is a more general backlash against globalisation in the world, not only in Europe. We had earlier this year the vote on Brexit in the UK. So there are a number of challenges, but we should not forget that we also have a number of positive developments in Europe. We read mainly about the negative aspects, while the positive elements are not that often highlighted so much.

So to have a balanced view about Europe, I think it's important to emphasise that we have come out of the crisis quite well. Overall, growth in Europe is about 1.5%, above potential growth, so the output gap is being closed. It's also important to see that because of our poor demographic trends, growth rates in Europe will always be lower than headline growth rates in the United States. But on a per capita basis, if we look at GDP growth per capita, the growth rates are the same – that was the case before the crisis and now again it's the case that GDP per capita growth, according to most forecasts, is identical in the US and Europe. And the income distribution is much better in Europe, I think it's something we can be happy about. So whatever the growth rates, we know that in the US, based on official numbers, only about 10% of the population has seen any real income growth in the last 15 years. In Europe, it's the other way around: 80% of households have seen real income gains. So I think we can be proud of that, and there are a few other factors that are better than perceived. Banks in Europe are much stronger than they were 8 years ago – they have doubled their capital, they have capital ratios that are close to those in the US. We have reduced our fiscal deficit in Europe. In the aggregate, the euro area fiscal deficit this year is 1.8%. And that's only one third of what you find in the US, Japan or the UK.

So we have come a long way after the crisis. And when I look at my institution, the ESM has worked very hard to help countries help themselves. We distributed emergency financing to five countries: Ireland, Spain, Portugal, Cyprus and Greece. Four of these five countries are success cases today; they are back in the market, they exited their programmes. Countries like Ireland, Spain and Cyprus have the highest growth rates in Europe. So the approach that was adopted a few years ago is working. It's showing positive results in terms of growth and declining unemployment. So looking back, I think we can be content that the crisis strategy adopted was the right one. Challenges remain for the future, but we should not forget the positive developments that we can also see.

Response to question on whether the ESM is preparing to provide financial assistance for Italy

No we are not preparing anything. I know there were a lot of rumours in the last few days, coming from somewhere, I think it started in the Italian press, that the ESM is either preparing a programme, or support for some banks, and we said very clearly that this is not the case. We have not been approached by the Italian government, we are not doing anything of that sort.

I think it's important to understand the Italian situation. We know from the stress tests conducted by the single supervisor (the ECB) earlier this year that there are a few banks in Italy that have problems, that need to raise capital. It's one big bank and a number of smaller banks. And that needs to be done, but this is not at all a situation like in 2009 or 2010 where we had in several European countries a country-wide banking problem. Italy is not in that situation today, because over the last six years, most Italian banks have done what we see everywhere in Europe. Banks are stronger, they have used the last few years to strengthen their capital. The capital of European banks today is twice as high as it was in 2008. Banks added €600 billion, that's an enormous amount of money – additional capital that doubled their capital and that's why their ratios are high. These are average numbers, of course, so as I said, there are individual cases, yes, but this is far away from having a country-wide problem. It's true that the ESM has instruments available; we developed them in the context of the banking union. In theory, we are available to take capital in banks, to do direct bank recapitalisation. We supported the Spanish banking system in 2012. But again, this is not under consideration for Italy.

