

Nicola Giammarioli in interview with La Repubblica (Italy)

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Interview with ESM Secretary General Nicola Giammarioli

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La Repubblica: Italy could ask for up to €36 billion from the ESM to cover health expenses linked to Covid-19: at what interest rate could the country obtain it?

Nicola Giammarioli: Under current market conditions, interest rates are negative. Therefore, not only would Italy not pay any additional cost, but it could find itself reimbursing less than it received.

How much would the government save compared to issuing the same amount in Btp (Italian government bonds)?

Today, Italy would save €500 million a year, or €5 billion over the 10 years covered

by our credit line. This is money that could be used to finance other policies for the benefit of citizens.

For several Italian political actors, these savings would be burned by stigma, i.e. the loss of reputation in the market caused by accessing the ESM, which would increase spreads and cause more damage than benefits.

According to our analysis, which also derives from discussions with investors, access to our new line of credit would not cause any stigma, there would be no damage to confidence in the markets. This is not a bailout like in the past, it is not a rescue launched during a financial crisis to remedy poor choices by a government. It is a credit line designed to respond to the pandemic, which is nobody's fault.

How can you be sure there will be no backlash?

We know it from talking with financial markets. Investors understand that their loans are safer if the debt service payments of a country drop because ESM loans are cheap. We also saw this when news spread that Cyprus was considering using the ESM credit line: its spread dropped because investors look favourably at the arsenal put in place by the European Union and the fact that a government is accessing it. When I talk about €5 billion, I am only referring to the direct benefits of activating the ESM. There are also indirect savings, precisely because the markets welcome the use of the pandemic credit line, which is reflected in government bonds by narrowing the spread vs the Bund: debt becomes cheaper with a significant financial benefit.

If there is no stigma risk, why has no government yet submitted a formal application to activate the credit line?

Each country makes its own political and financial considerations; it is not up to me to enter into the democratic debate of individual nations. Capitals need time to understand how to use the money, to evaluate its convenience, because our credit line is advantageous for some countries and neutral for those that already have access to the market at negative rates. The debate is ongoing and at some point the capitals will have clearer ideas and activate the ESM.

The credit line can cover direct and indirect health costs related to Covid:

how broad is this definition?

It is a very wide range of uses, ranging from vaccines to research, for example, through the reorganisation of health care and the restructuring of hospitals, contributions to old people's homes, to the modernisation of the local health system and general practitioners.

Will the ESM be able to impose any conditionality, reforms, macroeconomic adjustments or ex post debt restructuring?

No, we have to be very clear: with the new credit line, the ESM cannot impose any kind of ex post austerity, troika, cuts to pensions or the public sector. We are in a different ballpark than in the past: the only condition to be met is that the money is used for health care.

Some protagonists of the political debate point the finger at the fact that the ESM is a senior creditor: is it a risk for those who access it? Can it make the default easier?

Seniority is a pillar of our financial structure and means that when loans reach maturity, in this case after 10 years, they must be repaid before others. This is not seen as a problem in the markets. On the contrary, it translates into an advantage because it allows us to finance ourselves at negative rates.

But if a country assesses the credit line, an early warning system is triggered...

The early warning system is a simple internal management tool to determine the ability of countries to repay loans, also used by large international investors who buy government bonds of individual countries, such as banks. It is a widespread best practice that has no consequences in terms of restrictive fiscal policies or financial stability in a country.

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