

# Interview with 24 ORE: New programmes for large countries with market access

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Interviews

ESM

Italy

**The Imf in Tokyo was a good opportunity for you to meet Asian investors and bankers. What is their perception of the Esm, the European stability mechanism, and of Europe? Are they still worried about the negative impact that the Eurozone crisis could have on world economy and world growth?**

I went to the Imf annual meeting in Tokyo just a few days after the Esm was inaugurated. We had many contacts, many discussions. Very clearly, compared to three to six months ago, it was evident in all my meetings that the mood has improved. But markets are not always rational. Sometimes they are too negative, sometimes they are too positive, as they were until October 2009, when they were not differentiating sufficiently between the different member States of the Eurozone. I remember when the new Greek government announced policies that would lead to a significant increase in the fiscal deficit: it was October 2009, and markets did not react at all, Greek government bonds were yielding 30 basis points over Bunds.

**The BTP-Bund spread is shrinking. But Italy has been complaining about the markets that are not rewarding the country for the progress made on fiscal discipline and structural reforms. What is your assessment of Italy's commitment "to do its homework at home"?**

The spreads have come down. The 10 year BTPs yield went below 5%: this is much much better than six months ago, twelve months ago. I think the fiscal measures

and the structural reforms of the Government of Mario Monti are showing results as rates are coming down. The positive impact of the structural reforms on productivity do not show up yet but this is normal, it usually takes two to three years for structural reforms to add to productivity gains. Italy has a particular problem with productivity: it had fallen back compared to the European average in the past decade and there was a general lack of reforms until November last year, when Prime Minister Monti came and started reforms. Italy is now on the right track. Italians should not be discouraged by the lack of immediate progress: it takes two to three years before the results show up. But it will come, we can be sure of that.

**The existence of the Efsf, the European financial stability facility, and the Esm has helped the BTP-Bund spread to improve. Firewalls are a good deterrent against speculation and they can buy time for Italy. But did we really need two stability mechanisms, Efsf and Esm?**

The Efsf has done a good job and it continues to support the programmes for Greece, Ireland and Portugal. Its recent bond issues have been placed at very low interest rates (less than 1,2% for 5y bonds and 6 month T-bills at negative rates which is a sign that interbank markets are not working in Europe) and this benefit is directly passed on to the countries that borrow from us. We pass on our funding costs: we apply a very low margin, below 50 bps. These loans come at very attractive rates, they really help the countries to improve their sustainability. The Esm is more solid in some ways than the Efsf. The Esm is a permanent institution. The Esm is an international institution and it is subject to international law. The Esm benefits from a large amount of capital, 700 bn of which 80 bn paid-in, by far the largest amongst any international institution worldwide. The Efsf has worked on the base of guarantees, and it has done well, it has two AAA ratings, and AA+ from S&P. The Esm is different, it has cash because of its capital base. On the 13th of October, 32 bn of paid-in capital (the first two tranches) arrived on schedule, no delays from the 17 countries which are our shareholders: we will invest these 32 bn in a conservative way. We now have a capacity to grant loans up to 200 bn. It will be 500 bn by the middle of 2014. We have a very solid capital base, it makes us less vulnerable to the downgrades of the ratings of Eurozone countries. Esm has AAA from Fitch and Moody's, it will take a few more weeks for S&P's to give its rating: the delay is due to a review of the methodology by S&P. Finally, it is important: legally, the Efsf and the Esm do not do bail-outs, they are not allowed to do so by the EU treaty, we provide loans in support of adjustment programmes and precautionary credit lines.

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