

Silke Weiss in interview with Börsen-Zeitung (Germany)

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12/02/2022

Interviews

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Interview with Silke Weiss, ESM Head of Funding and Investor Relations

Published in Börsen-Zeitung (Germany)

12 February 2022

Interviewer: Kai Johannsen

Original language: German

Börsen-Zeitung: Ms Weiss, we are now in the third year of the Covid-19 pandemic. What are the lessons learned so far from this crisis for the ESM?

Silke Weiss: As an institution, the biggest lesson is that despite the difficult circumstances, we have been able to continue to fulfil our mandate and prepare for additional responsibilities when the ESM Treaty is reformed. Since the beginning of the pandemic, we too have been forced to do some operations and tasks from the home office. This has worked out very well and is now routine. We have consistently maintained our role as a funding institution and as an investor, and have continued to ensure that environmental, social and governance considerations are respected. ESG considerations are increasingly taken into account in all our activities. We created the Pandemic Crisis Support, a special credit line aimed at mitigating the impact of the pandemic by financing the healthcare costs of euro area Member States. The precautionary nature of this credit line has proven to be very effective in calming the markets. This new credit facility will be available to our Member States until the end of December 2022.

In June 2020, the ESM implemented a framework for social bonds. So the ESM has the status of a social bond issuer. What has been the response from investors so far, and what is the current status?

In the event that we need to raise funds to support euro area countries in their refinancing of health care costs, we have set up this Social Bond framework. It was created to finance the Pandemic Crisis Support credit line. The implementation of the Social Bond Framework allows us to have a deeper understanding of investor needs in relation to the ESG market, i.e. for example loans, products, regulation, etc. In this sense, we continue to develop our overall ESG framework to improve investor perception of the ESM as an ESG institution. It is also worth noting that we have increased our ESG investments tenfold since 2018.

And what are your plans for social bond issuance this year?

As the issuance of a social bond is linked to the request for pandemic crisis support, it is difficult to say what our future social bond issuance will be. If a request to use the PCS credit line is triggered, we are ready to activate our social bond framework.

Do you think green and sustainable finance will get another boost this year from the Covid-19 pandemic?

The green and social finance market has grown very strongly in recent years. I believe that this trend will continue and that ESG will develop into an established, mature market. There is still a lot of work to be done in terms of rules, definitions

and harmonisation, so the range of ESG bonds will continue to adapt to the evolving environment to meet the growing appetite of investors. In addition, the European Commission will continue to raise funds under its environmental and social programmes, which will further support this trend.

Let's take a look at the funding outlook for this year. What will be the funding volume for the ESM and EFSF in 2022, and where do you currently stand with your funding progress - overall and separately for the two institutions?

The combined funding programme for 2022 amounts to €27.5 billion, of which €19.5 billion for the EFSF and €8 billion for the ESM. Despite the more volatile market conditions, we had a very successful start to 2022. After a few months away from the market, the EFSF launched its issuance programme this year with a very successful double tranche of €5.5 billion - €3 billion with an eight-year maturity and €2.5 billion with a 31-year maturity - which generated orders for a total of €30 billion. In addition, the ESM funding strategy is complemented by short-term money market paper - so-called bills. These papers have proven to be a very effective tool to achieve the liquidity and flexibility we need and to keep borrowing costs low for Member States. In fact, for many years the ESM was the only non-sovereign issuer raising funds through bills. More recently, a programme of money market paper issuance has also been launched by the EU.

How does this compare to 2021? What is the actual outstanding volume and number of bonds from both the ESM and the EFSF?

The funding programme for this year will be very similar to last year's - only €3 billion more will need to be raised for the EFSF. The volumes have remained quite stable in previous years. The actual outstanding volume for the EFSF is €196.8 billion spread over 49 bonds, and €111.7 billion for the ESM with 26 bonds. However, the total issuance volume only tells part of our story. The institution has changed and evolved over time in the context of changes in our mandate. In times of large issuance volumes, our funding strategy required a high degree of transparency. We therefore introduced a calendar with detailed plans and announced the weeks in which bond transactions were due. We announced our quarterly funding requirements and had very open communication with our investors. This was necessary and had a calming effect in difficult times in Europe during the sovereign debt crisis

Are there any other issues?

With the introduction of a new ESM mandate and the current lower funding needs, the funding strategy requires more flexibility. Our continued market presence remains and is important, especially as the ESM will become the backstop mechanism for the Single Resolution Fund (SRF) under the reformed ESM Treaty. Therefore, we have further developed our funding strategy, and decided to stop publishing issuance windows from 2022 onwards - a decision taken to address the need for greater flexibility for eventual crisis funding. The ESM needs the ability to be quick in case it needs to adjust its funding programme in the event of a backstop request.

Last year, your funding for the two ESM/EFSF entities was already fully completed by the end of September. So that was very early and I think a milestone in the ESM/EFSF funding strategy. What was the reason for this early closing? Do you think you will close your 2022 funding earlier than last year?

In the case of the EFSF, we closed the funding for 2021 even earlier, already in July. But that was nothing unique for the institution. Last year we saw a generally positive tone in the markets with good investor demand, which led many issuers in the supranational, sub-sovereign and agency sector (SSA sector) to take advantage and bring forward their funding programmes earlier in the year. In addition, general confidence in Europe following the pandemic policy response supported the capital market environment. We were therefore able to successfully complete our annual funding target for the ESM in September. For the current year, we were already able to successfully refinance EFSF bonds at low cost. Further refinancing activities depend on a number of factors that the ESM cannot influence, such as general market conditions, investor interest and the supply of bonds from other issuers.

Where are you currently with the build-up of your US dollar yield curve? What is planned for 2022, are there any special requests - for example, specific maturities - from investors?

Our US dollar programme started in 2017 and since then we have issued a dollar-denominated ESM bond every year. These bonds are issued exclusively by the ESM, not by the EFSF. Until 2021, we have issued five benchmarks in the short to medium maturity range, i.e. with two and five year maturities. The current outstanding

volume is \$10 billion. The ESM bears no currency risk as all proceeds are swapped into euros. The strategy remains for the ESM to be present in this market with at least one bond issue per year. The dollar market remains an important segment for us.

What is the current status of the N-bond programme? What plans do you have in this bond segment for 2022, for example, in terms of volume?

It is extremely important for the ESM to have a variety of refinancing instruments available in order to be able to use different products in case of an increased refinancing need. N-bonds, which are privately placed registered bonds [under German law], can be issued by the EFSF and the ESM. Both issuers continue to have this option of issuing a small volume of privately placed N-bonds each year. We respond with issues of such bonds in case of corresponding requests from investors.

Are you exploring opportunities for new debt instruments or currencies in 2022?

A key part of the upcoming ESM Treaty reform is that we will provide the backstop for the SRF. The SRF is operated by the Single Resolution Board, which was established by the European Union as an integral part of banking union. The SRF is funded by contributions from the banking sector, not from taxpayer money. In the event that the SRF's resources are exhausted, the ESM could act as a backstop and lend the SRF the necessary funds to finance a resolution. In this case, we will use our existing refinancing instruments.

That means in concrete terms?

The ESM would provide a revolving credit line. The nominal ceiling for ESM loans to the SRF is set at €68 billion. When the backstop takes effect, the ESM's direct bank recapitalisation instrument will be discontinued. The direct bank recapitalisation instrument was designed before the implementation of banking union. The Pandemic Crisis Support instrument, which was made available in 2020 to finance Member States' healthcare costs related to the pandemic, will remain available until the end of 2022. In terms of currencies, the ESM has the possibility to issue bonds in currencies other than the euro and the dollar. We are currently refinancing in two currencies only.

How will your investor relations activities develop this year?

Our investor relations activities were understandably affected by the pandemic last year as well. We adapted to the situation and set up a virtual, digital format for interactions with our investors. However, when the pandemic situation improved in September and travel restrictions in Europe were eased, we successfully used this window to conduct a series of roadshows in Europe. These visits, which started in Paris, were very much appreciated by the investment community. We sensed that virtual meetings were generally tiring and investors really wanted to get back to face-to-face contact, with the necessary safeguards of course. We also spent a day in Frankfurt where we walked to all our meetings - in line with our environmental goals. Unfortunately, this changed with the new Covid-19 variant and the increasing number of cases before the end of the year. We will monitor the situation closely and hope to meet our investors in person again soon.

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