

Kalin Anev Janse in interview with CNBC (December 2022)

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19/12/2022

Interviews

ESM

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**Transcript of interview with ESM CFO Kalin Anev Janse
CNBC Squawk Box Europe, 19 December 2022
Interviewers: Steve Sedgwick and Geoff Cutmore**

CNBC: The ESM says measures taken by the ECB have changed the dynamics of how markets price bonds. Has it really changed the dynamics of the European bond markets? I look at the Italian ten-year paper getting close to 4.3% and kind of levels which are now above where the anti-fragmentation tool was brought in earlier this year I start to worry about issuance; I start to worry about bond market stresses. Kalin, you can reassure my nerves?

Kalin Anev Janse: Good morning. It's great to be with you. And you're absolutely right. A lot has changed in 2022. I remember how we started the year in January when issuance windows were extremely easy. I know we as ESM issued a 30-year bond with a coupon of just 0.7% back then, while bills were priced minus 70 basis points. And just a month ago we were pricing six-month bills in plus 2% area. So the world has indeed changed tremendously. But what is for me reassuring is that all Eurozone countries, including Italy, which you mentioned all have solid access to capital markets. Investors believe in the Eurozone and we have seen that there is a lot of European financing still available whether it's through Next Generation EU or the ESM's toolkit.

I want to talk about toolkit and the ESM was a key part of the toolkit, has been a part of the toolkit and I spent many a happy day chatting with Klaus Regling about this before he's gone into a fantastic retirement from the ESM as well. But there was a piece, and you would have seen this, Kalin, just a couple of weeks ago. And it was from the Financial Times, and the headline says, it all: "Eurozone's redundant bailout fund needs a revolution". And they're talking about you. They're talking about the ESM as well. And I kind of understand where they're coming from as well, because the ESM hasn't been something that's very popular with people who found themselves in some form of market stress. When I say people, I mean sovereigns.

The ESM is a little bit like the fire department, right? You don't close a fire brigade when there is one or two years with no fire. And if we see that the current crisis, the Covid crisis, but also the energy crisis is a completely different crisis than the Eurozone sovereign crisis we had a decade ago. Back then spreads were much wider and countries needed to resort to the ESM because they had no access to capital markets anymore. Now in this crisis that didn't happen. All 19 countries of the Eurozone, soon 20, with Croatia joining in January, have access to financing and investors buy their bonds on the capital markets.

And maybe to add one thing, we were part of the solution for the Covid crisis with Pandemic Crisis Support (PCS) for €240 billion. And it did exactly what it was designed for: to create market trust. It is designed after the IMF precautionary lines, which are there to create market trust but not to be drawn upon, and the PCS was open for two years. It will close at the end of this year and it was successful because it calmed markets and it didn't have to be used.

Can I ask you about the Italian ratification [of the revised ESM Treaty]?

Because it seems to me that that is the elephant in the room at this point for the evolution of the ESM into something more flexible, perhaps in the management of these crises when they emerge. The Italians are very reluctant to proceed with the reform. How do you convince them that it's in their interests at this stage? Because they clearly have valid concerns about the implications for their own national debt?

That's a very good question. And let me start first with the good news that the German Constitutional Court ten days ago already approved the ESM Treaty and

now it has to go through the national procedure. But Germany will be ready to sign soon, so we will have two countries left. One is Italy, as you mentioned, but also Croatia will need to do the ratification in the beginning of 2023 because they will be the 20th Eurozone member.

Italy has committed to ratify, and it will probably now take a bit of time in order to get there. But they have also seen the benefits of an ESM in creating financial stability to the Eurozone. If the ESM wasn't there, we might have been in a much deeper crisis after the Eurozone crisis. And what I mentioned about the Pandemic Crisis Support, I think that is really unique. I've been traveling around the world this year, and investors from Singapore to Norway say the PCS is really what the market needs. A big statement from the ESM that we are there to support the Eurozone, that countries always have access to cash and if needed, the ESM will be used. But it's actually really good if the ESM is not used because we are successful when the ESM is not lending and that therefore countries have access to capital markets independently.

And what about the concerns that the Prime Minister and others in Italy have about the risk of a restructuring of Italian national debt as a consequence of the amendments to the ESM's role?

There are many elements in the upgrade of the ESM. For example, we will become the backstop to the Single Resolution Fund, which is very important to create a strong banking sector. And you just spoke to [BNP Paribas Chairman] Jean Lemierre. I know he's a really big supporter of this as well. But there is also a monitoring aspect to all the eurozone countries. And yes, part of the reform is also that single limb collective action clauses [CACs] have to be introduced by the eurozone. But that's a commitment which goes beyond the ESM. It has nothing to do directly with our mandate to create financial stability. So I see that less of an important concern in the ESM ratification process.

Can I ask you about the amount of borrowing that is being done in the name of the Commission and whether you think that is going to create challenges going forward for money-raising in Europe and the operations of the ESM? We've just had a massive amount of money raised effectively to assist the post-Covid recovery, and Italy of course will get a lot of those funds. And now there is further talk to raise even more money to help with the energy transition. Is there a sense in which there is both the risk of

crowding out private corporate participation in these euro debt markets but also is there a concern that these liabilities are underappreciated by a lot of those who ultimately be responsible for them? That is the citizens of the Eurozone.

You just spoke about capital markets union with Jean [Lemierre], and one of the elements that we said that we need in Europe in order to create a capital markets union is a deep, safe asset. And with the EU coming to the market, together with the ESM and the EIB, we had around €800 billion of safe assets outstanding, pre-pandemic. This will be growing to €2 trillion over the coming years. So I actually see it as a real advantage to create a real European - and I count all the three European [institutional] names in that - safe asset that is in the market, that is all AAA-rated with a very good credit quality and appreciated by both market participants as well as countries. So I don't see any crowding out. I actually see a great appetite for these products and I see it with my own bonds when we go to the market, investors like the fact that they are AAA rated, covered by the 19 countries of the Eurozone, soon 20, and that it gives them a good diversification and also a really good pickup. So I see there is globally really a need for a European safe asset and I think the EU, ourselves and EIB are contributing to that.

Author



[Kalin Anev Janse](#)

Chief Financial Officer and Management Board Member

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