

Kalin Anev Janse in interview with Verslo zinios (Lithuania)

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18/05/2018

Interviews

Interview with Kalin Anev Janse, ESM Secretary General

Published in *Verslo zinios* (Lithuania) on 18 May 2018

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Verslo zinios: Greece is the last euro zone member state to pull out of the bail-out programme this summer and tap the markets again. What will the European Stability Mechanism focus on when there are no patients of Europe anymore?

Kalin Anev Janse: In fact, four Member States have already successfully completed their support programs: Ireland, Spain, Portugal and Cyprus. Greece is the only country left in an ESM programme. Greece is now in its final months. If the country remains determined to continue implementing the agreed reforms then I am optimistic that on 20 August this year it can also leave the programme.

It is a good sign that the euro area has overcome the crisis, but what will the ESM will do afterwards as an institution that helps the troubled euro area countries?

First of all, it was a tremendous success that we helped Europe through the crisis. It is not only the ESM, but also the European Commission, European Central Bank and and the IMF. This played an important role in helping Europe through the crisis. Without our rescue programmes, some of the countries would probably have been forced out of the euro.

Currently, there is a larger debate around deepening the Economic and Monetary Union and introducing new policy measures in order to prevent or reduce the impact

of future crises. This crisis is over, but economies move in cycles and sometime in the future there will be a crisis again. We need to be prepared for this in the best possible way.

What specific initiatives are you talking about here and what role the ESM will play?

The ESM could be developed further, some talk about a European Monetary Fund.

Part of that debate is the completion of the Banking Union, including the creation of a backstop for the Single Resolution Fund (SRF). There is an emerging consensus that the ESM could play that role (member states will fill the fund with €55 billion by 2023).

Another part of completing the Banking Union is the introduction of the common deposit insurance scheme but that will take more time because of legacy issues in some euro area banking systems.

The ESM could also take a greater role in future assistance programmes, together with the European Commission.

Other ideas include a fiscal capacity for the euro area, for example a rainy-day-fund or a new ESM facility to counter a smaller crisis hitting one country and caused by external events. This can be done without permanent transfers. But these ideas are very controversial.

And, finally, there is an idea to develop a sovereign debt restructuring framework. Here the ESM could play the role of an impartial moderator in negotiations between the private sector investors and the sovereigns. The next summit at the end of June is dedicated to these issues and perhaps there will be some decisions on the way forward.

You mentioned this rainy day fund in Europe. Why would Europe need this fund when we already have the ESM and resources to help member states that are in financial distress?

Countries use the ESM as the lender of last resort when they lose market access. A rainy day fund could help before that happens.

There are some successful examples, for instance, in the United States. The way that such a rainy day fund works is that US states filled the coffers of the fund once. When bad times hit one state, this state can draw a loan from that fund to deal with what economists call an asymmetric shocks. So these are not grants, these are loans that have to be repaid. Something similar could be set up in the euro area.

But as I said, a new shorter-term facility at the ESM could also be created for such a purpose.

To give you an hypothetical example, if Ireland was hit by a very hard, disorderly Brexit, the country could request then a loan to counter a recession. This could prevent that a fully-fledged ESM programme becomes necessary.

How will all these new initiatives affect the pockets of Lithuanian taxpayers? Will we pay more to the ESM?

If one creates a new rainy day fund, all the euro area Member States would have to finance it once. But this would be a one-off payment because it would grant loans that need to be repaid within an economy cycle, so 5 or 6 years. It would be a revolving fund that needs to be filled only once.

If it were a new ESM facility, there would be no additional cost for Lithuanian taxpayers. This could be done within the resources the ESM has. With over €80 billion, the ESM has the highest paid-in capital of any international financial institution worldwide and the ESM has a maximum lending capacity of €500 billion.

We are managing two institutions. The European Financial Stability Facility (EFSF) has disbursed around €185 billion to three countries, i.e. Ireland, Portugal and Greece. Then separately we are managing the ESM. Out of its lending capacity of €500 billion, we have disbursed around €80 billion. So after the Greek programme we will still have around €400 billion. This amount is unused and can be used for future crises. Again it is not the money that sits on our bank account. It is the capacity that we can borrow in the capital markets by issuing bonds and bills and then use the money raised to lend it to countries in a crisis.

Lithuania when joining the eurozone has committed to contribute to the ESM €327 million in five years as paid-in capital with an obligation to

transfer €159.4 million after 2027. Where is that paid-in capital invested?

We are investing that €80 billion of paid-in capital, paid by member states, in highly secure and liquid assets. These are mainly fixed income products. We invest this cash very cautiously so that it can always be used in case of need. It is a buffer that gives us a high credit rating. We never use that money for loans. If we want to disburse money for our loans, we issue bonds and bills first.

The ESM is already working with the International Monetary Fund in rescuing the euro area members in trouble. So why do we need to have the European Monetary Fund and how would that change the game to the member states?

Indeed, in the past, the four institutions - the European Commission, the European Central Bank, the IMF and the ESM/EFSF - have been closely involved in solving the debt crisis. However, we see that the role of the IMF has decreased during the past eight years.

In 2010, when the first EFSF programmes started, we needed the IFM for two reasons. First, for the financial reasons because we could not be sure to have sufficient money available in Europe. Secondly, we needed them for its technical expertise because we did not have technical skills at that time.

If you look at the crisis at the start, the share of the IMF accounted for one-third of the financial aid. The remaining two-thirds came mainly from the European rescue funds, the EFSF and the ESM. If you look later to the Cypriot programme, the ESM paid 90% of the programme and the IMF disbursed only 10% of the financial aid. If you look at the latest Greek ESM programme the IMF has not disbursed anything so far. So, over time in financial terms, the IMF's role has become much smaller. Secondly, now in Europe we have built our own skills to manage such crises ourselves.

Also I want to mention the agreement the ESM signed recently with the European Commission in Sofia. This is really a collaboration agreement between the Commission and the ESM. In the future these two institutions will jointly play a bigger role in solving crises in Europe.

The euro area has overcome the crisis and is now growing at its fastest pace over a decade, but as you are saying it is a matter of time when the new crisis comes. What risks do you see for the future?

I see four risks. As the economy is currently doing really well and we have managed to get out of the crisis, you can observe across Europe some reluctance to reforms. The ESM has started to flag this. If euro area Member States do not implement some of the discussed reforms to deepen Economic and Monetary Union, like a common backstop to the SRF, work on a common deposit insurance scheme and the further development of the ESM, there is a first risk that the next crises will be more painful and deeper than necessary because we did not make our currency union more robust. We should finish this task when the economy is doing well. As the popular saying goes: You should fix the roof when the sun is shining.

The second risk that I see is the cyclical risk. The Eurozone is currently growing at very high rates: 2.4% last year, 2.3% this year. This is above the potential growth which is in the euro area at 1.5%. This growth rate will inevitably go down and we need to start preparing for this.

The third risk that I see is what I call the new icebergs. For example, cyber threats are now a very big topic. If you look at the boards of banks and public institutions, there are very few people who are tech-natives. Hackers today are between 15 and 25 years old. A few weeks ago in the Netherlands, the country that I know best, an 18 year old was able to bring down the tax authority and knock down the internet banking at some banks.

The fourth risk is a potential trade war. Currently, Europe and the US are discussing the trade terms. This could at a certain time lead to protectionism and trade wars can be a trigger for future crises. So these are the risks we have to be aware of.

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