

# Kalin Anev Janse in interview with Lider magazine (Croatia)

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Interviews

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**Interview with Kalin Anev Janse, ESM Secretary General**

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**Lider: What is the ESM Secretary General doing in Croatia, especially given that the country is far from Eurozone membership?**

Kalin Anev Janse: The ESM finances itself with bonds and bills. Last year we were the biggest issuer of euro-denominated debt in the SSA (supranational, sub-sovereign and agency) sector and we're the fifth largest in the world after the four biggest national issuers. The pool of our investors, such as central banks, commercial banks and asset managers, includes Croatian investors, so we've come here to meet with some of them as part of our Eastern European tour, which also includes Hungary and Bulgaria. If you take these three countries in total, they have placed bids for almost a billion euros in the last couple of years, which is quite a large amount and that's why we're here.

**So, some Croatian institutions are owners of ESM securities?**

Yes, and that's the main reason of our visit to these countries. Even though they're not members of the Eurozone yet, investors in these countries have bought ESM and EFSF bonds throughout the crisis, which is a sign of trust in the Eurozone.

**Do you have a figure for the Croatian investments?**

Roughly half of the aforementioned billion comes from this country. It's a significant amount.

**To be clear - Croatia could not count on the ESM's help in case of emergency?**

That's correct. At the moment, Croatia is not a Eurozone country, and therefore not one of the 19 shareholder countries, and so it cannot benefit from the financial assistance offered by the ESM. However, being an EU country, it can use all the other available EU funds until it becomes a Eurozone member and an ESM shareholder. During the crisis, I saw how Latvia and Lithuania joined the Eurozone and became a member of the ESM. We spent a good amount of time in the period leading up to that to prepare them so that they could enjoy the benefits of the ESM.

**If there were to be a crisis, what could Croatia count on, given it's not a Eurozone member?**

Croatia would have two options. One is to use EU tools, such as the Balance of Payment instrument. This may not be as big as ours, but can be useful for Croatia in that hypothetical situation. The other is asking the IMF for financial support, as we've seen in other countries in the EU. For example, Latvia, Hungary and Romania took part in an EU Balance of Payment and IMF programme and Poland used an IMF precautionary credit line. Once the country becomes a member of the Eurozone and consequently an ESM member, it will have the entire ESM toolkit at its disposal, which includes indirect bank recapitalisation, macroeconomic financial assistance, precautionary lines and other tools.

**And if another crisis breaks out in the Eurozone, what would be the ESM's role? What resources are at your disposal and would it be enough to cover big economies, such as Italy?**

To answer this question, it's important to look back at why the ESM was created. I was a member of the staff from the very beginning, when the EFSF, the temporary predecessor of the ESM was created. Europe had no institution like this when the economic and monetary union was created and this was a missing piece. We started out with bilateral loans, but soon realized something structural was required. European countries had limited resources and in 2010 decided to create a €440

billion institution, the EFSF. This instrument was used to help Portugal, Ireland and Greece, and it disbursed €185 billion in total. Then, the ESM was created as a permanent institution in 2012, with an additional lending capacity of €500 billion. At the moment we have a firewall of €700 billion, when EFSF and ESM are combined, out of which we have used close to €300 billion, leaving more than €400 billion available for lending. You mentioned big economies – we helped Spain and this required only around €40 billion. We applied a surgical solution helping only the banking sector, thus restoring confidence in the banking system. This means we can use our resources in a smart way, without using the full amount available. Also, early repayments by some countries like Spain suggest that the available firepower could exceed the current €400 billion if there is a next crisis. The ESM is similar to the IMF when it comes to lending and similar to the World Bank when it comes to raising capital. We issue bonds and bills, and now have more than 1,500 investors around the world who buy our bonds because they have a high rating and offer a strong return. Our loans are cheaper than the ones available on the market and the loans of the IMF, and have longer maturities. In exchange for these advantageous loan conditions, countries have to implement tough reforms. Every time we disburse money, we expect certain conditions to be met, to ensure financial stability and strengthen the competitiveness of a programme country.

### **You're positive you could cover an economy the size of Italy in case of an emergency?**

With a remaining lending capacity of more than €400 billion, we are sufficiently secure to help countries in difficulty. But I don't think it is needed at the moment. Italy has never lost market access, not even during the peak of the crisis.

### **What's the procedure to get help and who has the final say?**

The final decision lies with our governing bodies, the Board of Governors, comprised of the ministers of finance of the euro area, and the Board of Directors, their deputies. The former decides on assistance programmes, and the latter on the disbursements. When the request comes, it's addressed to the ESM. The Commission, ECB and the ESM then evaluate it. The final step is agreeing on an MoU after which assistance can be disbursed. This can be very fast as we've seen in the case of Greece, which received help within a month of the political decision to provide assistance.

**The Greek program was very contentious due to the conditions attached to the assistance and the way compliance was monitored. In the next crisis, who will control the fulfilment of conditions? Another 'troika' of IMF, ECB and EU officials or will there be a different mechanism?**

That's a very good question that goes to the heart of the current policy debate. If you look back, we have evolved a lot. In 2010 there was no ESM and the EFSF had just been created. When we started with the 'troika' concept, we needed the IMF for two reasons - one was financial resources and the other technical expertise. During the crisis we managed to build up expertise at European level and create a financial facility able to provide assistance. The Cyprus program was funded mostly by the ESM, with the IMF providing only ten percent, and the third Greek program was fully funded by the ESM. The debate now is how to do this in the future. There is a growing consensus that the ESM and the Commission have to implement the process together, while the IMF and the ECB would play a smaller role. The details are currently being discussed.

**It would be less political and more technical?**

We are an institution with expertise in finance, capital markets and economics, but at the end of the day, we're in the hands of the 19 Eurozone member states. We try to come up with solutions in the best interest of the 19 member states. We consider ourselves a technical organization, not a political one. We want to excel in finance, capital markets and economics.

**But the member states have the final say.**

In the end, all important decisions are taken by our Board of Governors and Board of Directors, in most cases requiring a unanimous vote. There is a good reason for this. Providing financial assistance to a country is a very big political decision that has to go through parliaments in a number of countries. This makes sense, given that countries are making large financial commitments.

**And parliamentary approval will still be required in the future?**

Yes, in the countries that require a parliamentary procedure for this. The discussion

on the future of the ESM is centred around working more closely with the Commission; how to make better use of precautionary credit lines; how to set up the ESM as a financial backstop for the Single Resolution Fund and – in the long term - how to integrate the ESM into the EU legal framework. But as this requires a change in the EU Treaty, one can assume it will take a long time.

### **One part of the discussion is the ESM becoming the European Monetary Fund.**

The name has become synonymous with the initiative to upgrade and update the ESM, but the name is not important because the ESM is already a strong brand in the market and we're happy to keep it. Apart from the mentioned points of discussion, there is the question of ESM's role in a possible sovereign debt restructuring framework. If our member states want this, we could play a role in this, because we understand markets and economics.

### **What's your stance on the eurobonds, an idea floated during the Greek crisis?**

We see benefits of having a safe asset in Europe, but the current political reality is that there's no appetite for debt mutualisation and these things shouldn't be forced if there's no support. There is a proposal to create SBBS (sovereign bond-backed securities), financially structured products that mimic a safe asset. But they're so complicated that there's no market appetite for them. Markets will require a premium on these products because they are complicated and resemble instruments such as CDOs that caused the crisis. It helps to think about what a good, safe asset for the Eurozone could be, even more so in today's changing geopolitical climate. The question we get asked more and more is how to make the euro more global as the dollar is becoming a political instrument and the US is retrenching from global trade. There's a growing demand for a stronger second currency, and that's the euro.

### **And do you share the view of some European officials and leaders that the Greek program was a success?**

Greece has come a long way. If we compare it with the four other countries that had ESM programs spanning a few years, Greece had much bigger structural problems. It

also had one of the weakest public administrations in the euro area, which had major difficulties in implementing reforms. When the country was on track to recovery in 2015, we witnessed a very expensive reversal of government policies. If you look at the last eight years, the programmes in Greece were successful for several reasons. First, we kept the Eurozone together with Greece in it, even though many economists predicted otherwise. Second, the country pushed through many important reforms. Independent surveys of reforms done by the OECD and others acknowledge this. Third, investor confidence is returning, as shown by the lower yields on bonds. Finally, ESM support with very low interest rates and very long maturities de facto meant substantial debt relief without any nominal haircut and without budgetary costs for other euro countries. All this helped Greece reform and regain investor confidence. It's now important that the country keeps on this trajectory and remains committed to the agreed measures.

**The problem is not only the measures, but also the way in which they're being implemented. Greece lost a quarter of its economy, many people were pushed to the brink and over the brink of poverty, and the debt levels remain stubbornly high.**

It's difficult to compare the situation before and after because the statistics were questionable when the country entered the euro, and the country was living way beyond its actual means, so the economy had to revert to a more realistic level. Greece is now a much healthier economy, it has regained competitiveness and has a current account surplus. It's true that the population had to go through very painful reforms, but overcoming a crisis always means tough changes. The upside is evident in other countries like Spain and Ireland. They are doing well, thanks to their determined reform implementation. If Greece keeps on this trajectory, it can also become an economic success story.

**Will future bailouts be as strict as the Greek one?**

We have been as strict with Greece as with other countries, but each situation was different. What's important is to achieve debt sustainability and push through reforms to restore competitiveness. In future crises we have to ensure that the Eurozone remains intact, but also that there is financial stability in these countries.

**How much money has the ESM disbursed, has it made money so far, what**

## **are some important numbers that depict the work of the ESM?**

We have disbursed €295 billion in loans, €185 billion under the EFSF and €110 billion under the ESM and we're slowly getting this money back. The ESM has a paid-in capital of €80 billion, the highest of any International Financial Institution, which has been provided by the euro area countries. But we do not use that money for our loans. It just serves as a buffer, a guarantee for investors. We raise all the money we need for our loans from investors in capital markets. Currently, we have around €300 billion in bonds outstanding. Last year we issued more than €60 billion, this year we'll issue around €46 billion and next year €32.5 billion. Our goal is not to make a profit, but we do charge a small fee on our loans to cover expenses. Over the years we've aggregated earnings of €2.1 billion euros which we hold as a reserve.

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