

# Kalin Anev Janse in interview with Investor.bg (Bulgaria)

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Interviews

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

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Interviewer: Elena Iliyeva

**Investor.bg: Mr Janse, let's start our conversation with Bulgaria. The country will most likely be the next member state of the euro zone. This time, however, there have been changes to the rulebook for becoming a member, including having to participate in the European Banking Union. How is this going to affect Bulgaria and isn't that changing the rules in the middle of the game?**

Kalin Anev Janse: First of all, it's important to remember that the ESM is not one of the institutions that decides who joins the euro. There are other European institutions for that. But still, I would not say that there has been a real change of the rules. When the Maastricht criteria were created, the banking union didn't exist. During the last crisis we had to strengthen the Economic and Monetary Union, amongst others by creating the banking union. The global financial crisis showed that poorly understood financial products and unstable banks can cause very severe global crises. The fact that Bulgaria has to comply with the banking union is good for the country because it enables it to make its banks stronger and more successful once it joins the euro zone. It's a win-win for both Bulgaria and the eurozone.

**Is it possible that these changes could slow down the accession process?**

When joining the euro, speed is not the most important thing. What's important is that a country is ready, stable, and has strong economic fundamentals. It should

comply with the Maastricht criteria in a sustainable way, and have a healthy banking system. It's not good to rush the process. It's important that when a country joins, it is fully prepared to cope with being part of a currency union.

**Where does Bulgaria stand when it comes to the implementation of the accession criteria? With this in mind, what is a realistic timetable for our acceptance in the euro zone?**

As we are not the institution that decides, I am looking at this as an outsider. What we see is that in terms of Maastricht criteria, Bulgaria is doing well and is advancing. That's why also this summer there was a positive message from the euro area countries that Bulgaria should prepare itself forERMII. Once Bulgaria joins ERMII, I think a clearer timeline will be given.

As a Bulgarian, I think it's a fantastic ambition that Bulgaria wants to join the euro. It will be very good to be part of the euro zone, because a single currency offers a lot of opportunities, and a country can benefit from the protection of Single Supervisory Mechanism and the Single Resolution Fund, and also, if needed, from the ESM. But the most important thing is that the country prepares well for that moment.

**Is this the right moment for joining the eurozone?**

Even during the last crisis, three countries joined the eurozone - the three Baltic countries. And for them this was very positive. It is an advantage for their economy and a sign of stability. But it is also a geopolitical step, because being part of an integrated Europe economically and financially provides safety. You want to be part of the whole package that the European Union offers, including the Economic and Monetary Union.

**Let's talk a little bit more about the ESM itself. Debates on euro zone reform include some changes in the duties and powers of the ESM. What results do you expect from these changes and how do you think they will affect the current work of the fund? How realistic is the idea for the ESM to be transformed into a European Monetary Fund and how is this going to affect the euro zone member states?**

Europe has come a long way during the crisis. The crisis showed that certain

elements in the architecture of the Economic and Monetary Union were lacking. There was no lender of last resort for countries that lost market access. When we created the monetary union, we'd never expected that countries of the economic and monetary union would lose access to global capital markets, but that did happen. For that purpose, we now have the ESM. And we set up the banking union, with the Single Supervisory Mechanism and the Single Resolution Mechanism.

During the crisis, we made a lot of fixes to the euro area. Now your question is also about the future. It's better to finish the missing elements in good times, now that the economy is growing and Europe is in a better state.

Currently, three topics are being discussed. One is the completion of the banking union, two is strengthening the ESM, and three is a possible euro area fiscal capacity. The focus is now on the first two. If we look at finalizing the banking union, we are discussing a backstop to the single resolution fund. There is already a political agreement that the ESM should do this and we're now technically discussing how to.

Another element to complete the Banking Union is a European deposit insurance scheme. In our view, this is an important step to strengthen the banking system and also for trust among citizens that their money is safe and that they will always be able to retrieve it, also during a crisis. It requires that banks deal with their legacy problems first, however.

We're also working on strengthening the role of the ESM. What you will see is that the European Commission and the ESM together will be negotiating, designing and monitoring programmes in the future. So instead of four creditor institutions – the Commission, the IMF, the ECB and the ESM – there will likely only be two: The Commission and the ESM. This is important so we would be able to handle future crises better.

Another new task is that the ESM might play a role in a possible sovereign debt restructuring framework. If our member states want this, we could play a role here, because we understand markets and economics.

A further element is the revision of the ESM toolkit. We have six different instruments, but we've only used two: loans during an economic adjustment programme, and the indirect bank recapitalisation for Spain. The other four

instruments have not been used so far. We are now discussing how to make one of our precautionary credit lines more accessible.

Then there is a question as to whether the ESM should legally be included in the EU Treaty. All EU members need to agree and some would even have to have referenda. So this would take time. But we have always said it would be good that the ESM eventually becomes part of the EU framework, with a status similar to that of the European Investment Bank.

The third topic is fiscal tools. There are discussions about creating a central fiscal capacity, or a facility against asymmetric shocks. But it will take time to align countries on this issue. Some countries favour it, others are fiercely against it. So this will need a proper political discussion.

**What about the euro? Can the European currency become the first reserve currency of the world, dethroning the dollar from its leadership? Is this possible and if yes - when?**

You're raising a very topical question. The issue was brought up this summer by the German Minister of Foreign Affairs Heiko Maas. Jean-Claude Juncker also used it in his State of the Union speech. The question is also raised more and more coming by global investors. The ESM has more than 1,500 investors around the globe from Europe - also from Bulgaria - Asia, the Americas, and Africa. Many of them are concerned that the dollar is almost used as a political tool of the US administration.

So they are asking the relevant institutions in Europe to develop the euro as a stronger currency. Of course, a reserve currency can only develop in markets, so it will take a long time for the euro to become a leading reserve currency. Our ambition is not for the euro to replace the dollar, but to move to a multipolar monetary system where several currencies - certainly including the dollar, the euro and the renminbi - would have comparable importance.

We already see a shift by some investors from the US dollar into euros. They buy more euros than dollar-denominated debt, and they try to trade more in euros. Post-crisis, the euro has become one of the most attractive currencies in the world.

**Are there a lot of investors who make that shift?**

We see more and more of them. They see uncertainty coming from the current US administration, geopolitically and with the risk of a trade war.

**From an economic point of view, this year was quite important for Greece as the country completed its third and final bailout. According to the ESM, this was a successful process. But many analysts say that there is still a lot of work to be done. What is your assessment to the post-bailout development of Greece?**

Greece is in a much better state than it was eight years ago. When Greece entered the crisis, there were a lot of issues. The public administration was weak, the economy was in bad shape, they had large fiscal and trade deficits. The country had to do a lot of politically difficult reforms. And what's most remarkable is the amount of reforms they have pushed through. They now have a fiscal and a current account surplus and they have been able to tap the markets. Investors are starting to trust them again. So we see a lot of positive developments. The fact that Greece managed this so well is a big sign of the resilience of the Greek people. But Greece should never become complacent. It is important that Greece keeps on reforming, also now that the support package has ended.

**But there are still some weak spots. Which are they?**

For me the biggest risk will always be complacency. This could lead to a reversal of the reforms. While it is true that Greece has implemented a tremendous amount of reforms, it still has more to do, like strengthening the public administration, the legal system and further privatisation. Only if Greece continues to be determined about reform implementation, it can convince capital markets that they're doing a good job. So far, they have done that. So that's why I'm optimistic.

**Talking about weak spots, do you think Italy is real danger for the monetary union's stability? Is it possible for Rome to turn to the ESM for help?**

We have been asked whether we would need to support Italy since the rescue funds were created in 2010. And yet, it never happened. Italy is much stronger than many people think. It never needed our support and they managed the crisis well. The

current discussion around Italy is about the budget the government has tabled, and which appears not to be in line with the EU framework. Markets are reacting to that. But Italy is a founding member of the EU and dedicated to Europe. I do not see Italy as a potential client of the ESM.

### **What are the other major short-term risks facing the euro zone?**

I see four risks at the moment. The first is cyclical risk. The economy has been growing above potential for a few years, so a slowdown will inevitably happen. It is important to prepare ourselves for slower economic growth. Countries like the Netherlands or Germany are already at full employment, so they cannot grow much faster.

The second risk is complacency. When the economy is doing well, reforms tend to be stopped or delayed. It's better to fix the roof when the sun is shining.

The third risk is that capital markets are exposed to cyber attacks, because of the rapid developments in digitisation. Some institutions and companies are very far advanced in dealing with these risks, but others are really lagging behind. If something goes wrong, it could have a major impact on financial stability. This really requires our attention.

The final risk are trade wars. They could have a huge impact on the global economy, and certainly also on the eurozone.

### **Is it possible that the economic problems of countries like Turkey and Argentina will have some impact on the eurozone?**

Turkey is a big neighbour of Europe. Currently, the direct impact is limited. But of course it's important that our neighbours are stable.

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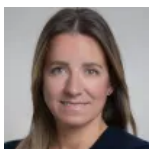


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