

## **Interview with Rolf Strauch, Member of the Management Board of the ESM**

**Published on 19 April 2014 in *21st Century Business Herald* (China)**

Q: The previous years witnessed the EFSF's efforts in attracting global sovereign and private investors to buy bonds and make the fund stronger to maintain the financial stability in the euro zone. But recently we have seen that the EFSF keeps a lower profile in public eye. And the yields in euro zone government bonds are going down, so people are more focusing on other things. Compared with earlier days, is it easier or more difficult to persuade investors these days?

A: As a crisis mechanism, it is important for us to ensure market access in good or in difficult times. We have managed this so far and we have no reason to believe this will change. It is normal that there is less public attention when you get out of the high peak of a crisis. Nowadays the yields are also coming down for programme countries, so the markets are a bit more in the risky mood. This however does not affect demand for our bonds which benefit from a higher creditworthiness. We managed to establish a strong and broad investor base---more than about 1000 investors for EFSF bonds. Last year the EFSF issued €58 billion in bonds, remaining the biggest issuer in euros, while the ESM raised €10 billion. We remain active and will keep a high profile in the market. So I really do not foresee that we scale back our investor relations activities and face lower demand for ESM/EFSF.

Q: I think the participants for the event at the New York Stock Exchange [Paris Europlace International Financial Forum 2014] were mainly from institutional investors, corporate issuers, bankers and insurers. Did you have any specific task this time to maintain your relationship with main investors and other issuers?

A: At this event, I wanted to draw investor attention to the positive developments in Europe. Essentially Europe has already done a lot in order to overcome the crisis and implemented numerous measures. We are now seeing the fruits of those measures. That is very important for investors to understand. In general, we are in permanent contact with our investor base. It is important for us to interact regularly with investors, which are mainly institutional, to get feedback. Our Diversified Funding Strategy enables us to react flexible on market developments and investor needs.

Q: From your perspective, how important is the inter-institutional relation? How different are you from other big issuers in the market in this respect?

A: We are aware of the benefits of good relationships. For a crisis resolution mechanism, it is important to have market access all the time. We are therefore looking for a stable, long-term investor base. As an international organization, the EFSF and ESM also have to maintain a good network at an institutional and political level to fulfil their mission.

Q: Compared with previous years, why are more investors from advanced economies, especially the US, interested in bonds issued by periphery countries?

A: US investors are going back to periphery countries. This new development is not something that will immediately impact on us as issuer, but it is a very positive signal for the euro area economy. We are proud of the fact that the programmes in Ireland and Spain have been concluded successfully. The countries achieved their objectives, regained market confidence, and are now financing at very favourable rates. The Portuguese programme will end in a few weeks. Portugal will decide whether to go for a clean exit or not, but again they have made progress in accessing the markets. At an earlier stage, Portugal has been particularly looking for US investors and getting US interest. The US investors' attitude towards European peripherals seems rather positive. From last autumn to the spring this year, the European peripheral countries have been certainly benefited from such positive investor interest.

Q: There are many indicators showing the European economy has already recovered while there are still many headwinds. What are the biggest concerns that your investors have when talking about buying bonds? We know that the IMF has criticized the ECB's slow responses to stimulate the economy; how do you think of lower-than-expected inflation in euro zone and the responding policies so far?

A: For the moment investors focus on the growth prospects of the euro area economy. There have been a number of questions, also raised by the IMF, about deflation. The ECB is very closely monitoring the situation and is discussing measures to address the situation. This risk of deflation should not be overdone. Yes, there is a very low probability, but the main scenario of the IMF or the European Commission's forecasts is no deflation. At the moment, we have an inflation level which is lower than what ECB's primary objective but not even close to zero. It is actually expected to accelerate over time. So the risk is limited. One should also take into account the costs of a very low interest rate. The benefits of keeping a very low interest rate and making monetary policy accommodative even with quantitative measures may be receding. The ECB will take this into account when gauging its monetary policy reaction. There is indeed deflation or negative growth of price components in some periphery countries. But this is part of the adjustment process which is driven by fiscal consolidation and structural reforms. In this sense it is an appropriate consequence, which we think should be temporary. Moreover, in bigger economies like Germany, the wages, a big component of inflation base, are increasing.

Q: Your view on the achievement of the EFSF in rescue projects and the smooth transition to the ESM.

A: The ESM is a permanent institution, while the EFSF has ceased granting assistance programmes in mid-2013. Nevertheless, the EFSF will stay in the market, and will continue to administrate all its existing loan facilities for member states, meaning Greece, Ireland and Portugal. At this stage, there is no plan to systematically move over our issuing program from the EFSF to ESM.

Q: Based on your contact with rating agencies, how about their thoughts on euro zone sovereign risks nowadays?

A: The ESM has now started its own early warning system to monitor the member states and their ability to repay. So we are not dependent on the rating agencies' assessment. Overall, at least since the last quarter of last year, rating agencies have been increasingly acknowledging the progress made by different countries in the euro area, either by direct upgrading them or by changing the outlooks. We think this is justified and I expect it to continue.