

Transcript of Keynote Interview with Christophe Frankel, CFO and Deputy Managing Director, ESM

Conducted by Christopher Garnett, Director, Euromoney Conferences at the Euromoney Public Sector Financing Forum, 30 September 2015, Frankfurt

Christopher Garnett: You had to find a great deal of extra funding in order to fund the third programme for Greece. More than three times than you had planned at the start of the year. Just talk us through this, how did you do it. What was it like to be in the middle of that?

Christophe Frankel: When you mention that this is something that we could not plan, you're perfectly right. But what we say is that we need to be ready. This is the mission of the ESM, to be ready to act under pressure, in case there is the need to help one of the Euro Area Member States. As far as the figures are concerned, yes, this is quite large for the ESM. At that point, the ESM was only financing Spain for about €40 bn and Cyprus for about €9 bn. So yes, up to €86 bn for a new programme for Greece is large. It does not mean that we will have to finance the full amount from the market. Because as we did already for the ESM and for the EFSF, part of this amount will be financed by issuing bonds in kind for the banks, up to €25 bn. And this is not drawn from the market directly. There are two other factors that may lower this cap of €86 bn. First, the role of the IMF, which is still not known. We anticipate that the IMF may participate in this programme as well...."

CG: Can I just interrupt you there for a second? Obviously the IMF's annual meeting is coming up. Is the role in the Greek (programme) something that will be decided during the forthcoming meeting?

CF: Frankly, I don't know. In my opinion it would be a bit too soon because there are still some discussions about the debt sustainability analysis.

CG: But it's important they stay in, I think, isn't it?

CF: This is what is in the Treaty of the ESM. We are looking at the participation of the IMF. And this could be an important aspect that would lower the total amount that we would have to finance. And also how Greece performs, how successful the privatisation process is, would also potentially decrease the total amount. So €86 bn is a maximum. But it is important for the market participants to know. It's not the first time that we are facing such a large task within such a short period of time. And we have always been able to succeed in providing liquidity on short notice. Whether it is by raising short-term bills programmes, long-term bond issuance, payment in kind, this is one of the major achievements of the EFSF and the ESM and the market recognizes that.

CG: You can also use your capital to cover funding...

CF: No. It is very important to know that what we lend to countries is only what we borrow from the market. We also invest the paid-in capital of €80 bn. This makes us quite a large investor in the SSA environment, which is interesting given the other topics we discussed. But the paid-in capital is never used to be lent to the countries.

CG: The programme, although it won't reach the €86 bn is still a very large programme that you have to fund in the market. What are the challenges that you see as you begin to do that?

CF: The challenges are quite similar to the ones that were discussed this morning. We are very well prepared to face those various challenges because, first there is a good recognition of our name in the market. And our issuance strategy is quite consistent with what the investor base in our opinion likes in this environment. The focus on liquidity will be very important and this is what we always put at the front of our strategy. And the second element is also that the ESM will now be much closer to the EFSF because it can issue long-term bonds. The new Greek loans have an average maturity of 32 years. Previously, the ESM was much more a short- and medium-term issuer, but now it will be a much longer issuer. And this is where there is still some value for investors to buy SSA paper. Because we heard this morning that sometimes they feel that ...

CG: ...relative value is not something that you find...

CF: Exactly. Where at the very long end there is still some value to have super-high quality, super-high liquidity and still some yield. And this is exactly where we are moving.

CG: Let's talk about the PSPP [the ECB's programme to buy up public debt securities]. Because clearly that – as you just hinted at – also affects you on the other side of your balance sheet. But tell us first about how it has altered your tactics in dealing with the market as an issuer.

CF: We can feel the influence of the PSPP not only as an issuer but also as an investor. And I agree with what has been said this morning, that the change in the market has been rather smooth. One aspect which may not have been discussed enough is the fact that the new issuance premium is higher than it used to be. And in my opinion this is normal. The central bank, the ECB, cannot buy on the primary SSA market. This is different from the covered bond market, which is why there is a discrepancy between the two programmes. In my opinion, it naturally creates some differential between the secondary and the primary market. Because it is difficult for a certain category of investors to go to the primary market. So there is no capacity to fill this gap, where we would have thought that new investors would be able to take this opportunity to go to the primary market, because there is a new issuance premium which is higher. But it's not really happening. So I think we have to live with that and this is fine.

CG: A couple of issuers on the panel in the first round this morning gave a pretty resounding 'yes' to the success of this programme. Do you concur with that?

CF: Oh yes, absolutely. I fully share the view that it has been announced on time, it went very smooth. There is good contact between the ECB. They are really listening to us. From the investor point of view, if you stick to normal size transactions, you find the liquidity, you can find the paper you want. So the programme in my opinion has been reasonably quite well done.

CG: So the advantages, which seem clear enough, clearly outweigh the disadvantages that some people identify of price distortion, market distortion, crowding out if you like, that kind of thing. There is no doubt about that?

CF: As far as the PSPP is concerned, I would say it is fair to say so.

CG: When you are road-showing, beyond Europe let's say, when you're going to the Middle East, sovereign wealth funds, central banks in Asia and so on, how do you distinguish yourself from other supra-national borrowers? You are really in a rather unique position. But also you're quite a new entity. So what are the key ideas that you try to plant in people's minds? And then my next question is if you are in any sense a sort of chief marketer for the euro zone?

CF: Perhaps not chief, but marketer, no doubt. I can live with that. We are the only pure euro area body. And the market sees us as being able to provide an independent view on what is happening in the euro area. And as being able to explain what has been decided in Brussels. Because sometimes it is not easy to understand. We are seen as being able to provide the right explanation.

CG: As you say, obviously from the distance of Singapore or Abu Dhabi or wherever it might be these entities do rather blur into one another. Maybe you could take yourself the title as chief marketer, because you're the apex organisation that's able to define what the others do.

CF: Again, most of the European institutions also market the euro and the euro area when they travel, when they roadshow. Sometimes we are positively surprised to meet people in Asia who understand what is happening or what has been decided better than investors in Europe. As to how we differentiate ourselves, we have different ways to approach the market. At the end of each quarter we announce the windows that we may use to issue. We issue bills by using auctions twice a month. And in the years to come, we will have the capacity to issue very long-term bonds.

CG: Century bonds, is that the plan?

CF: I don't think so, because it will depend on the length of the loans. And I don't think we anticipate such long-term loans, even to Greece. We stick to benchmark issuance in euro. So we are providing liquidity and this is really what investors are focusing on.