

Interview with Christophe Frankel, CFO and Deputy Managing Director, ESM Published in L'Agefi (France), 26 October 2015

L'Agefi (LA): How has the new rescue package for Greece changed your funding programme?

Christophe Frankel (CF): Our financing volume will increase though at the moment, it is not easy to calculate by how much. The programme could still be smaller [than 86 billion euros] but we need to know, first if the IMF will take part, and second how much money the Greek banks need. This year the ESM had a funding programme of 23 billion euros. We still need to issue 6 billion. For next year, the programme will be 29 billion euros. That number assumes a role for the IMF.

LA: How does the ESM position itself in markets compared to its predecessor, the EFSF?

CF: The ESM has long been relatively small because we were only in charge of the programmes for Spain and Cyprus. There was a fairly meaningful scarcity premium, and the ESM was more expensive than the EFSF. The market has put aside that scarcity effect with the introduction of the Greek programme, because the ESM will be a more important issuer than the EFSF in 2015 and 2016. At the moment, the ESM is trading at a less expensive level than the EFSF. Rates are somewhat higher, in the order of 5 basis points. There is also a marginal effect linked to the uncertainty over the size of the Greek programme.

LA: Why did you issue a 30-year bond?

CF: We issued a 30 year bond because the Greek programme has an average maturity of a little over 30 years. It also helps us to lock in the current very low interest rates, given very strong demand for the very long end of the curve. At the moment, 30 years is the maximum imposed by our guidelines. We already have loans at 45 years. There are good reasons to ask for the possibility to issue at even longer terms.

LA: Are you thinking of changing your issuing strategy?

CF: For the moment, our strategy is based on three pillars: we only issue in euros, mainly in benchmark size to conserve liquidity, and we have our bills programme. We could develop a capacity to issue private placements geared at the German market with N-bonds. If possible, we will put that instrument in place before the end of the year. Next year, we will start to work on issuing foreign currency bonds, possibly in 2017.

LA: What impact do you feel from the ECB's QE programme?

CF: It is our impression that it does not have a significant impact on EFSF and ESM paper, because of our strategy of issuing only benchmark bonds in euros, and always looking at liquidity first.

LA: Why is it important for you that the IMF takes part in the Greek programme?

CF: The IMF's experience in executing such programmes is very valuable, given that it has done them throughout the world for decades. For that reason, for a certain number of euro area Member States, it is very important that the IMF participates in the Greek programme, and we are confident that it will. For our financing programme, the impact isn't that significant. The order of magnitude of the IMF's participation estimated by some is roughly 16 billion euros over three years.

LA: What needs to be done to ease Greece's debt burden?

CF: At the moment, what we ask all the (programme) countries to pay, is just purely our financing cost with a very tiny margin on top of it. So there is no further room to manoeuvre with interest rates. The only thing that we could possibly do, is to play with the maturity profile, as long as Greece continues to implement reforms. For the next 10 years, they have almost nothing to pay, but we could look at longer maturities, because the time horizon [for our loans] is [roughly] 40 years. We consider that the debt is sustainable given that we can stretch it over time. There is no need for a nominal haircut, and there is a consensus that there won't be one.

LA: Some countries have suggested that the ESM be a backstop for the European resolution fund?

CF: This is not unthinkable. We can already provide lines of credit to countries. We also know how to raise large amounts of money in short periods of time. And I don't think that our remaining financing capacity is insufficient. But being a backstop for the fund requires changing the ESM Treaty, and this is not on the agenda.