Interview with Kalin Anev Janse, Member of ESM Management Board responsible for funding, ALM and lending, and Secretary General of the ESM and EFSF

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Börsen-Zeitung: You will access the markets as usual in 2017. What will the funding volumes be for the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) next year?

Kalin Anev Janse: We're planning a total refinancing volume of €50 billion for 2017. Of that amount, €27 billion is for the EFSF and €23 billion for the ESM. Additionally, we have a money market programme, which contains 3- and 6-month bills, with an outstanding volume of €13 billion. And then there is our programme of N-bonds (Namensschuldverschreibungen). We will actively use these financing instruments in the coming years. We expect to be in the market for around €30 to €50 billion annually in the coming years. That makes us an issuer with large capital needs and a big player in the Supranationals and Agencies segment.

And what are the volumes for these entities this year?

For the EFSF, we've done €12 billion already this year, so we have another €2 billion to go in the fourth quarter. The ESM has raised €23 billion and also has a €2 billion remaining funding volume for the last quarter of the year. These numbers are for long-term funding only, and they exclude the bill programme. For our short-term paper, we need to raise another €6 billion during the rest of the year.

Interest rates and bond yields have moved further into negative territory this year. Have you had any major issues in your issuance programme, for instance because investors are becoming more reluctant because of the negative rates and yields?

No, actually all our issues have been oversubscribed nicely. Usually, we use syndications to reach investors. That always works well. But we also use auctions, and these have also all been very successful. This has also had a positive impact on the secondary market liquidity of our paper. Let me give you an example of negative yields and investor behaviour. At the end of September, we tapped a 2025 ESM bond for €1 billion. We sold it at a yield of minus 6 basis points. It had a coverage ratio of 2.9, which means that investor demand for this bond was three times as high as the supply. We are in negative territory with our bonds up to a maturity of 9 years, and we are still able to place them without problems.

Have there been any other consequences from the low interest rate environment?

We have lengthened our maturity profile because of the low interest rate environment, particularly for the ESM, because the new Greek programme allows us to go much longer into the curve. That also enables us to further diversify our investor base.

Have you seen any shifts in the investor base, due to the market environment of low or negative interest rates and yields, which keep going down?

Yes, we're seeing more and more appetite from investors at the longer end of the curve. Pension funds and insurance companies for instance, are trying to match the maturities of their assets and liabilities. Particularly for insurers, this is a very important regulatory aspect in relation to Solvency II. Therefore, they are interested to be at the longer end, also because that's where they can still find positive yields. And for us it's interesting as well, because we can lock in low interest rates for very long periods of time. We also do see that some investors are having difficulty with the negative yields, and therefore they are slowly shifting into longer maturities.

Do you expect the market environment of low or negative rates to continue next year, and will that pose any challenges for the funding and issuance activities of the ESM and EFSF?

It depends very much on what the ECB will do. Of course, the ECB's crisis-related decisions are also a challenge for us as a market player. But so far, we've been able to cope with it very successfully. The current market environment hasn't stopped us from being able to place our issues. We have been able to keep a very strong presence in the euro market despite the ECB's quantitative easing programme. Our estimate is that the ECB holds 30 percent of our eligible bonds with remaining maturities of 2 to 30 years. Some investors like it, because there is always a buyer for the bonds. Overall, I have to say that the ECB's QE hasn't hurt us.

Do you expect the ECB to widen its quantitative easing measures by continuing to buy bonds after March 2017, or buying high-yield bonds or other assets?

Monetary policy is a matter for the ECB. The ECB has shown in the past that it's doing its job very well and I am certain that it will continue to take the right decisions in the future.

Due to the low interest rate environment, many issuers are opting for long or ultra-long bond maturities at the moment. What's the longest maturity for your institution at the moment, and are you planning to extend that even further?

We have to take our assets into account when looking at our maturity profile. Or in other words, assets and liabilities have to match up to a certain point. The longest outstanding loan for Greece comes due in 2059. So that's another 43 years. Our borrowing guidelines allow us to issue up to 45 years. However, because the loan is for another 43 years, we would not issue beyond that. Currently, our longest outstanding tenor is 40 years. We have been extending the maturity profile recently to take advantage of the low interest rate environment, along the entire maturity curve. It runs from three-month bills to 40-year bonds.

Are your investors interested in longer maturities?

We have a very wide investor base buying our money market bills and longer-dated bonds. That's why we're seeing interest in our paper across the curve. Up to 5 years, we see a lot of bank treasuries as buyers. Between 5 and 15 years, there are a lot of central banks. And maturities beyond that are popular with pension funds and insurance companies. So there is interest across the entire curve. Everyone has different interests: strategically, but also regulation-wise.

So far, you've only issued in euros. But you're also planning to enter the dollar market. How are the preparations going?

We are planning our first US dollar bond for 2017. Our current plans foresee that the issue will take place towards the end of the year. A lot of work goes into this project. There are many organisational aspects and legal requirements such as documentation that we need to look at. Obviously, once we issue in dollars, we want it to be a success. The issue will need to be swapped back into euros, so that we don't run a currency risk because all our loans are in euros. There are advantages to issue in dollars, for instance, because we'll widen our investor base. In the shorter-term maturities, i.e. from two to five years, it is certainly an interesting market, particularly with interest rates where they are. But what is particularly good for us is that we'll be able to access new investors. That's why we're making this step to issue in US dollars.

Could you give us some more details? You're currently registering with the SEC, and you're preparing the Credit Support Annex. At what point are you in these processes?

There are different ways to issue in dollars, and we're now deciding which one to choose. We're also launching the ISDA documentation and the Credit Support Annex. We'll have all that ready towards the end of next year, to be ready for the issue. All the administrative and operational aspects are happening now.

But investors can expect the issue of a dollar bond next year – so towards the end of the year?

Exactly.

Do you have plans to issue bills or bonds in other currencies, such as the British pound?

No, at the moment we're implementing the dollar bond project and we'll see how that goes. You should never exclude other currencies in the future, but at the moment the focus is on the dollar.

Many companies are looking at the British pound, because it's more attractive to issue in sterling and then swap back into euros than to issue directly in euros.

For us, it's more important to be present across the curve and for our bonds to have a high degree of liquidity. So we don't want to go into too many currencies. In euros, we have a strong presence, because of who we are. Our issues are very liquid, and we're a strongly established name in the market. We're doing this very strategically. We're aiming for the most favourable funding costs for borrowing countries, we want to have the lowest cost possible. But we also want to have a very strong presence in the market.

Your colleague Christophe Frankel said last year that the ESM is preparing the issuance of N-bonds (Namensschuldverschreibungen). This programme, based on a traditional German debt security, is specifically aimed at the German market. How is this project going?

The programme is going very well. We've raised some €580 million in N-bonds already this year. We were able to cut our borrowing needs through other securities for the fourth quarter by half a billion euros, because the N-bonds programme has been going so well.

What are the main advantages from these bonds for German investors?

Normally, our issues are in benchmark volume, so €1 billion or higher. N-bonds enable us to tailor issues to the needs of investors. It could be a certain point in the maturity curve that is desirable for investors, or special issue sizes below the benchmark volume. In either case, it has to be attractive for both sides.

Are there any other advantages?

Yes, there are. These bonds are not listed on an exchange. According to German law, this means that there are different accounting rules, which - for German investors – makes them more attractive than instruments listed on an exchange.

What is the feedback on the N-bonds you're getting from German investors?

We've done a lot of roadshows in Germany on this issue, because it is an important investor base. The feedback is very positive. They are interested in buying ESM and EFSF bonds in benchmark size. But we also saw that investors have a preference for these N-bonds because of certain requirements. For us, this instrument means we can broaden our investor base, and have an even better pick-up of our debt. Overall, this project is quite positive for us.

Are they the same investors, or new ones?

Often it is the same players, buying a different product from us. Especially insurance companies are very keen on the N-bonds.

Is the maturity profile of these N-bonds the same as for your benchmarks? Or is it a different one?

It is similar to the benchmarks.

What is the current situation with the measures for debt sustainability for Greece?

We were asked to look at short-, medium- and long-term measures. Currently we're working on the short term measures. I can't say too much about it, because we've still got a lot of work ahead of us, and we've not publicly taken a position. It is still a political process, and there has been no conclusion. Different shareholders have different preferences, which we need to take into account. But there are three elements. The first is to smooth the repayment profile. The average maturity now is at 28 years. We can raise this to 32.5 years to adjust the repayments and avoid a few big jumps in the repayment profile. Secondly, we're looking at measures to reduce the interest rate risk. And thirdly, there is the waiver of a jump in interest rates in 2017 for a small part of the Greek debt.

What is your current economic outlook for the euro zone?

The current outlook is quite good in our view. Many people are more sceptical than they should be. Euro zone growth is expected to be 1.6 percent this year. For next year, the expectation is 1.8 percent. That's above the potential growth rate. Certain countries, such as Ireland, are developing very well. Ireland was a programme country, now it is a growth champion. And Spain is also doing quite well from a growth perspective. And we also think that income distribution in Europe looks much better than in the US.

What is the comparison with the US?

If you compare Europe to the US, we see that 80 percent of the population have seen real income growth in the last 15 to 20 years. In the US, only 10 to 20 percent of the people can say that. Europe is really outperforming there. European labour market developments are also comparing favourably to the US, here Europe is also outperforming. More people are employed in Europe now than in 2000. In the US, this number has steadily declined. So Europe is doing much better than many people think.

What economic impact do you see from the Brexit vote in the UK?

The UK is not a shareholder of the ESM or the EFSF. That makes things easier for us, because we are not directly impacted. But there will more be negative consequences for the UK. It is a risky move to leave the EU community of nations. Even without the UK, the EU will still be the world's second largest economic bloc, with a GDP of around €12.1 trillion. The UK only has the equivalent of €2.5 trillion, which is a lot smaller. The EU has 440 million people, in the UK there are only 65 million. Plus, there will be a long period of uncertainty, for instance around Article 50, clearing aspects, et cetera. The EU can possibly benefit from these circumstances.