

EUROPEAN STABILITY MECHANISM



Kalin Anev Janse, ESM Secretary General

“A crucial year for Europe!”

Financial Institutions Conference by UniCredit

4 June 2019



*An Unending Trade
War Leaves Wall Street
Jittery*

**‘No-Deal’ Brexit
Returns to Forefront
of Debate**

**Populist tide rises but fails to
flood EU**

Brexit claims new victim as May bows to
inevitable

**Trump calls European Union a 'foe' -
ahead of Russia and China**

EUROPE

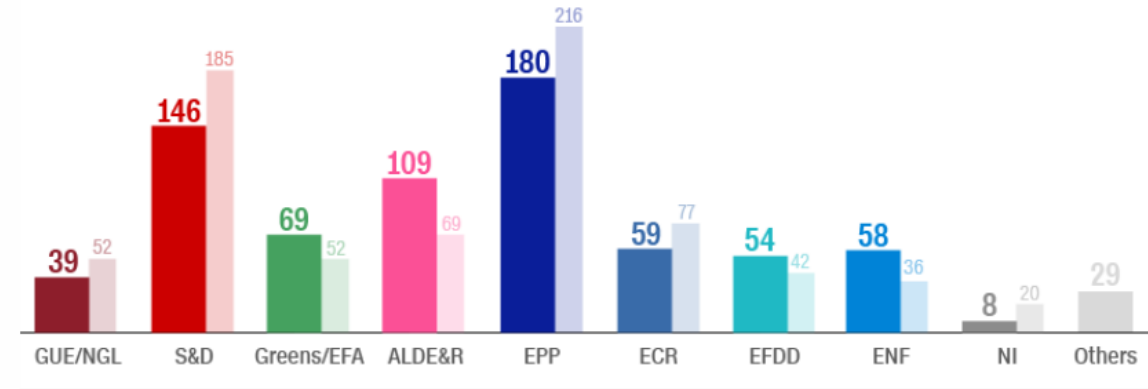
**Pro-EU Parties to Hold Majority in European
Parliament**

China Sees Protracted Trade War With the U.S.

OUTCOME OF THE SECOND LARGEST DEMOCRATIC PROCESS IN THE WORLD

- 400+ million eligible voters
- People care – highest voter turnout in 20 years (over 50%)
- Pro-European mainstream parties continue to dominate the EP
- No landslide win for populist, three Eurosceptic parties up from 20% to 22%
- Absolute majority with just center-left and center-right no longer possible
- EP more fragmented and multi-party majorities needed

European Parliament projection for 2019-2024
Provisional results 2019 and seat distribution of the outgoing parliament



<p>GUE/NGL European United Left / Nordic Green Left Left-wing, includes Greece's Alexis Tsipras of the Syriza party</p>	<p>Greens/EFA Greens / European Free Alliance Made up of Europe's green and regionalist parties</p>	<p>ECR European Conservatives and Reformists Group Right-wing, often campaign to reform the EU, includes the UK's Theresa May of the Conservatives</p>
<p>S&D Progressive Alliance of Socialists and Democrats Center-left, broadly pro-EU, part of the 'Grand Coalition,' includes Spain's Pedro Sanchez of the Socialist party Greens/EFA – green and regionalist parties, includes the UK's Nicola Sturgeon of the Scottish National Party</p>	<p>ALDE&R Alliance of Liberals and Democrats for Europe Liberal centrists, pro-EU, now includes France's Emmanuel Macron of the Republique en Marche party</p>	<p>EFDD Europe of Freedom and Direct Democracy Populist, eurosceptic, includes the UK's Nigel Farage of the Brexit Party</p>
<p>Others New MEPs who do not belong to any political groupings yet.</p>	<p>EPP European People's Party Center-right, pro-EU, part of the 'Grand Coalition,' includes Germany's Angela Merkel of the Christian Democratic Union</p>	<p>ENF Europe of Nations and Freedom Far-right, hard euroskeptics, includes Italy's Matteo Salvini of the Lega party</p>
		<p>NI Non-Aligned MEPs who choose not to align themselves to any groups</p>

WAS THE OUTCOME A SURPRISE?

NO!

Three quarters people in Euro Area in favour of Euro

340 million Europeans use it every day

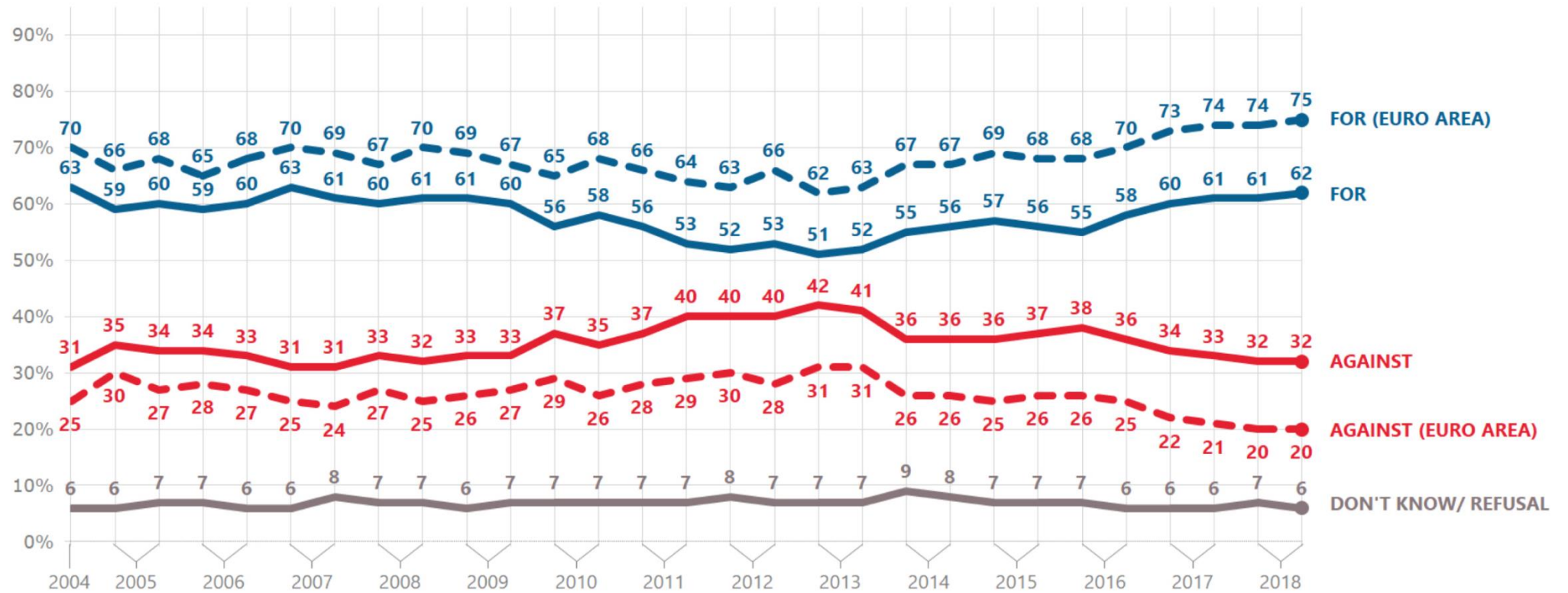
More than 30% of Euro area citizens never used another currency than the Euro



SUPPORT FOR EURO HIGHEST SINCE ITS INTRODUCTION IN 1999

QA15.1 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it.

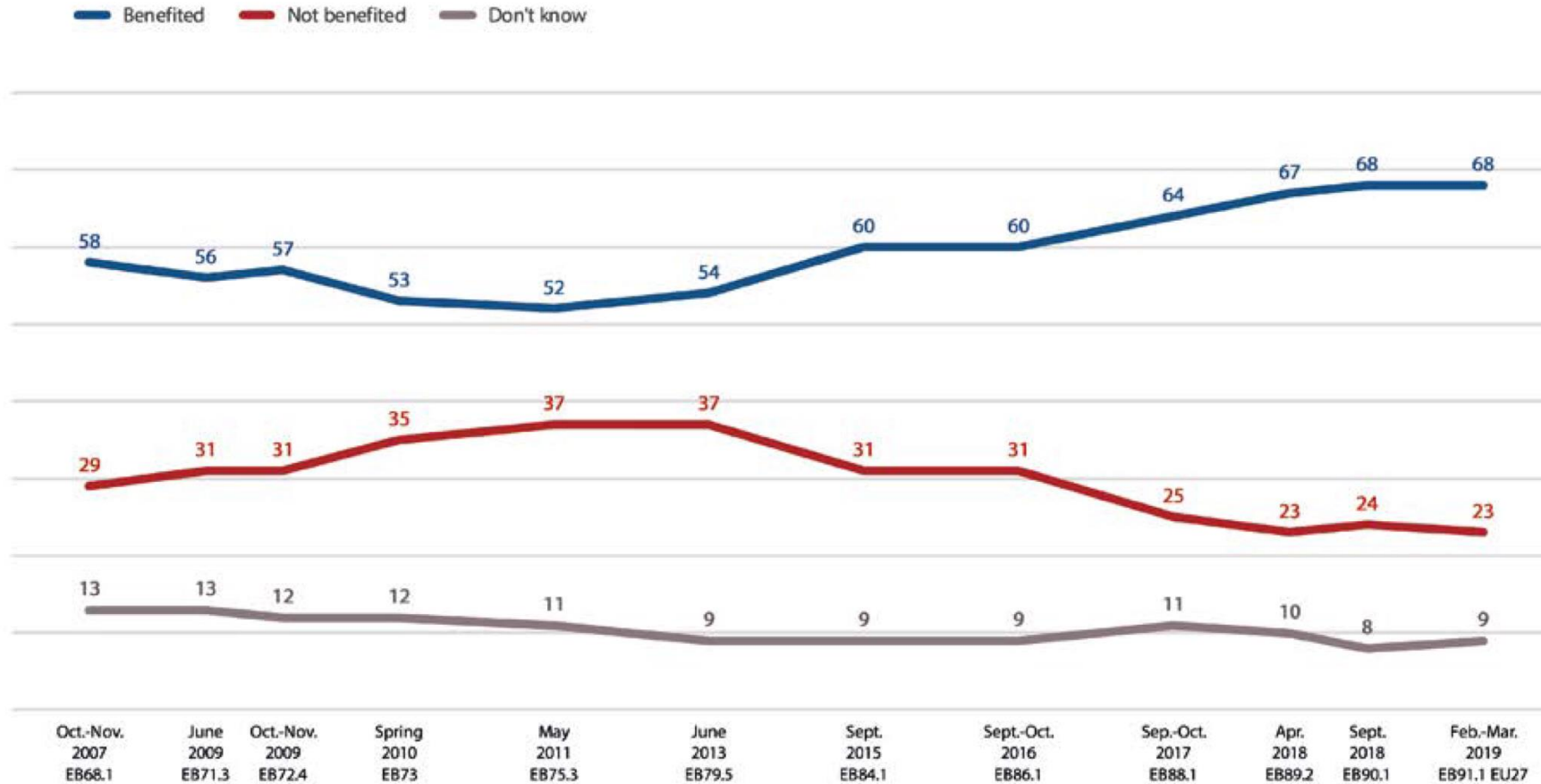
A European economic and monetary union with one single currency, the euro (% - EU)



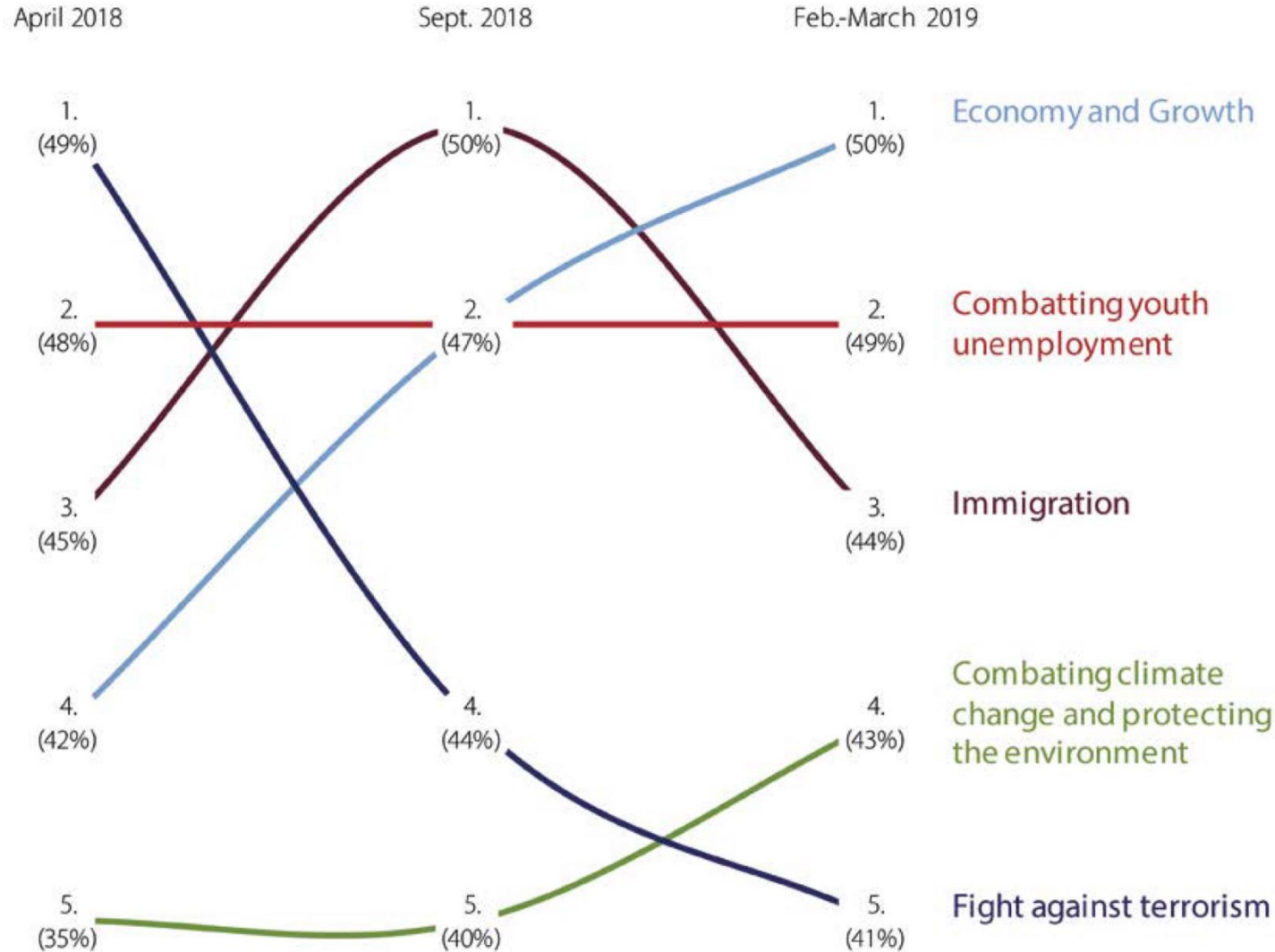
Source: Eurobarometer

SUPPORT FOR EU AT THE HIGHEST LEVEL SINCE 1983

Q Taking everything into account, would you say that (OUR COUNTRY) has on balance benefited or not from being a member of the EU? (% - EU)



WHAT ARE EUROPEANS WORRIED ABOUT?

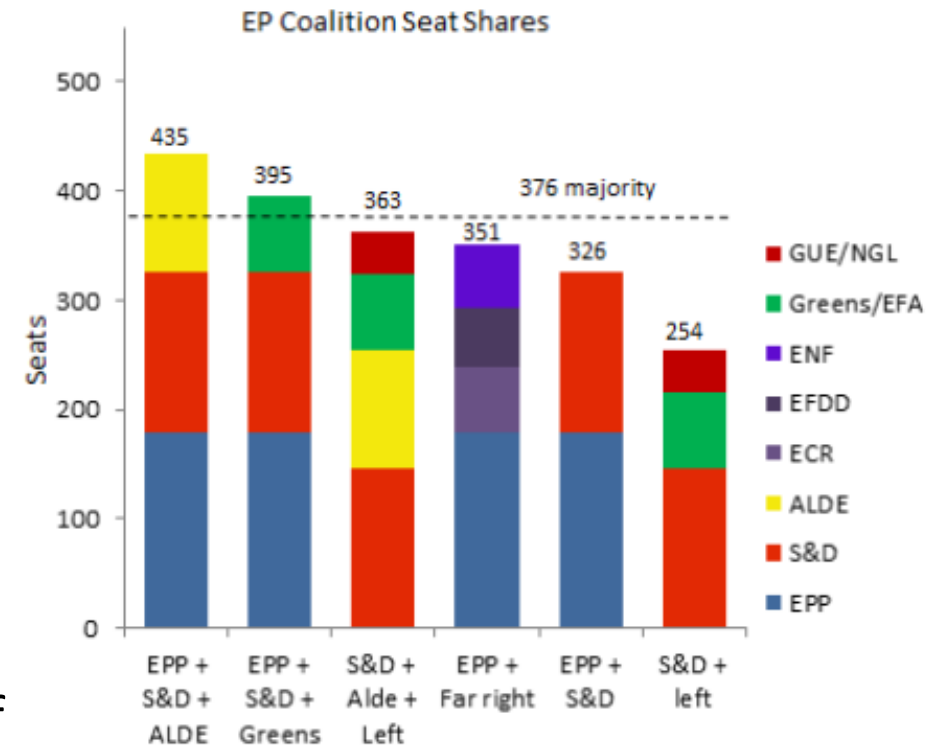


Important topics for us:

- Deepen Economic and Monetary Union; CMU (make Europe more prosperous)
- Focus on safety and security (migration is a cross border issue)
- Strengthen in ESG (rise of Greens and student movements)

EUROPE'S CRUCIAL YEAR: WHAT TO WATCH THE NEXT WEEKS AND MONTHS

- Coalition majority in Parliament
- European Commission President
- 27 remaining Commissioners
- European Council president Tusk's term ends in November
- ECB president end of year, half of the Executive Board changes
- A **new and fresh group of leaders** will be in charge of taking Europe forward through the tumultuous and unpredictable global landscape.



Source: European Parliament, Kantar, Goldman Sachs Global Investment Research

WE CAME A LONG WAY

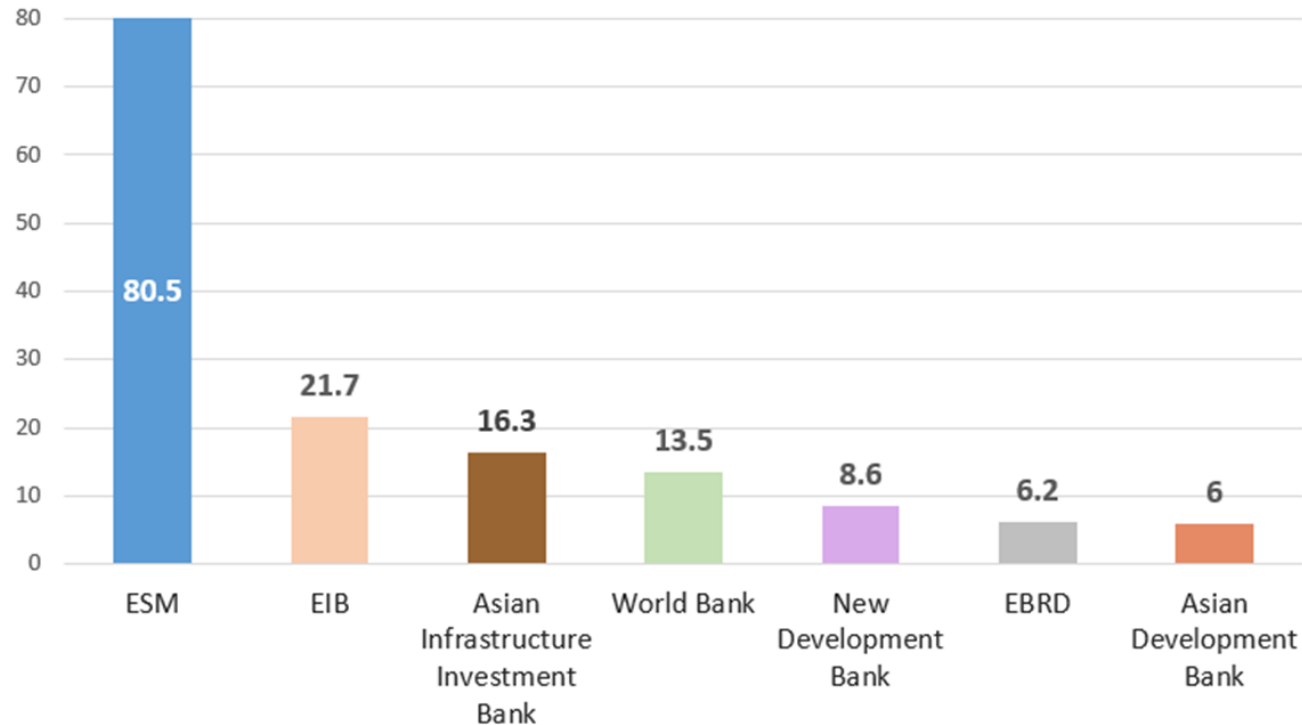
HOW THE EURO CRISIS – BIGGEST CRISIS IN 80 YEARS TIME - WAS OVERCOME

Five essential measures that helped overcome the euro crisis:

1. Establishing a crisis mechanism
2. Reducing vulnerabilities, implementing reforms
3. Strengthening governance of euro area
4. Improving resilience of European banking system
5. Conducting an active monetary policy

THE ESM – MOST CAPITALISED IFI IN THE WORLD

Paid-in capital of major international financial institutions (€ bn)

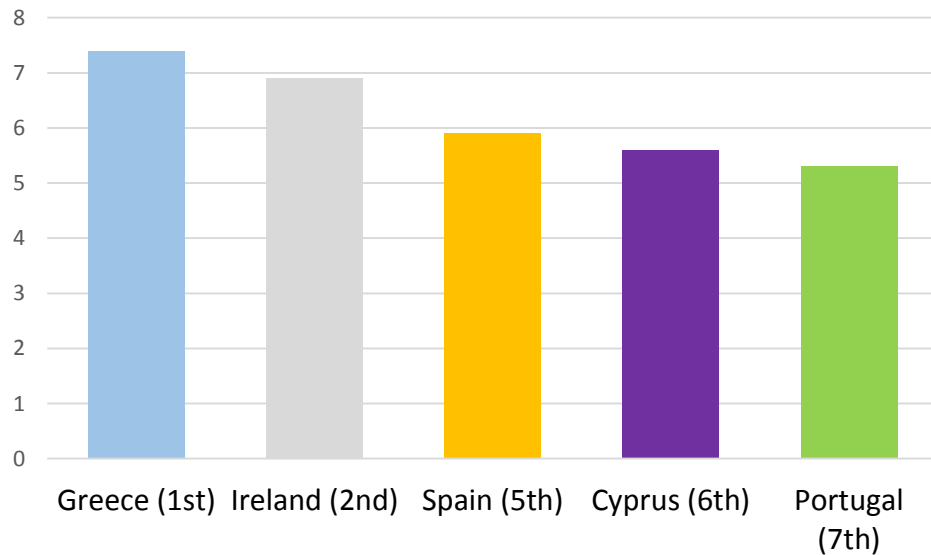


- EFSF created in 2010
- ESM has a capital of over **€700 billion, €80.5 billion** of which is paid in. Created in 2012.
- EFSF/ESM combined disbursed **€295 bn** in loans (three times more than the IMF) and issued **€300 bn+** in bonds. **1600+ investors**
- €32.5 bn issuance this year
- Follow **“Cash for reform”** approach. Greece saves €12bn annual or almost 6% GDP

EFSF/ESM PROGRAMME COUNTRIES ARE THE REFORM CHAMPIONS

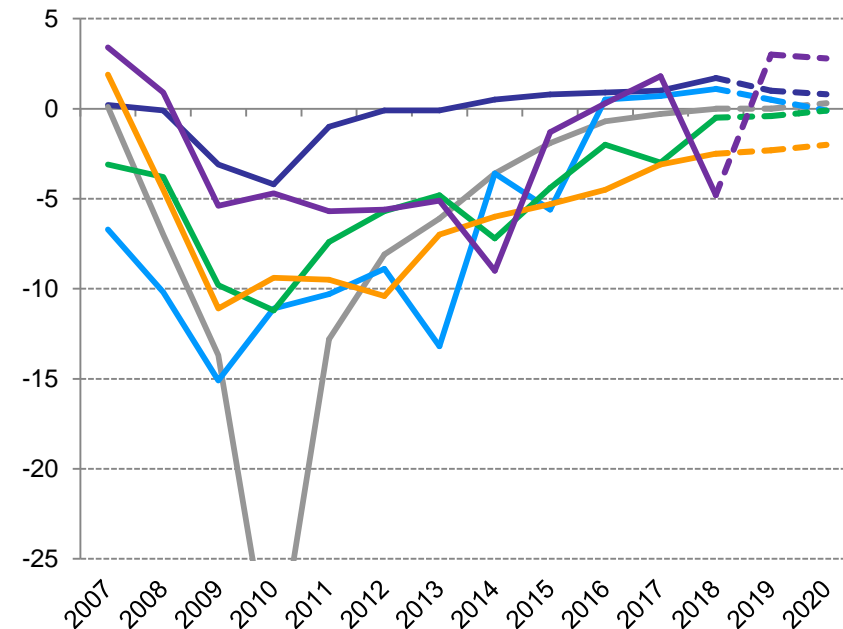
Greece and Ireland ranked highest in overall measure of 4 key medium-term adjustment criteria

Overall adjustment (scale from 0 /worst/ to 10 /best/)



Source: "Adjustment Progress Indicator" in Euro Plus Monitor 2017 published by the Lisbon Council. The ranking comprised the 28 EU countries; Latvia and Romania are ranked 3rd and 4th, respectively.

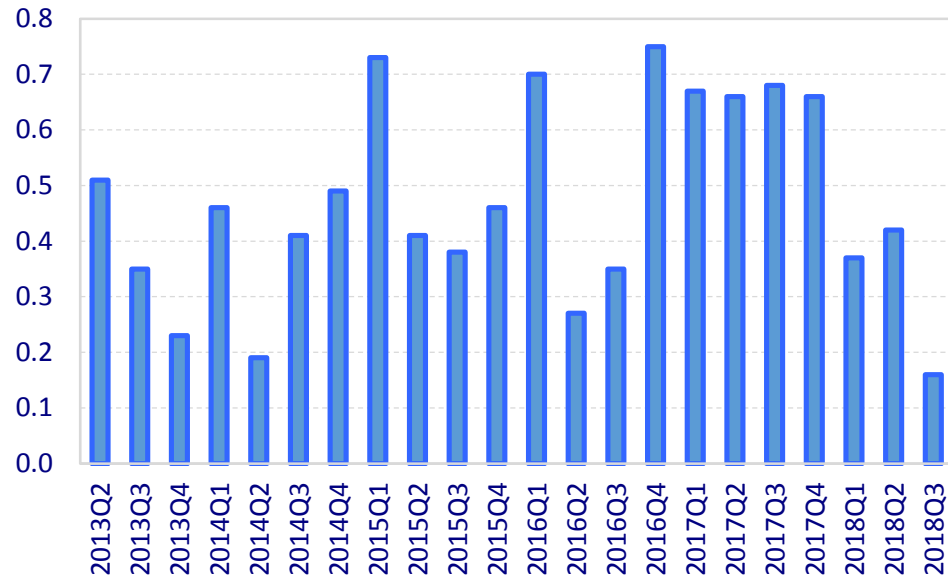
Fiscal balance in programme countries (% of GDP)



Source: European Commission Economic Forecast –Spring 2019
 *Actual figure for Ireland in 2010: -32%

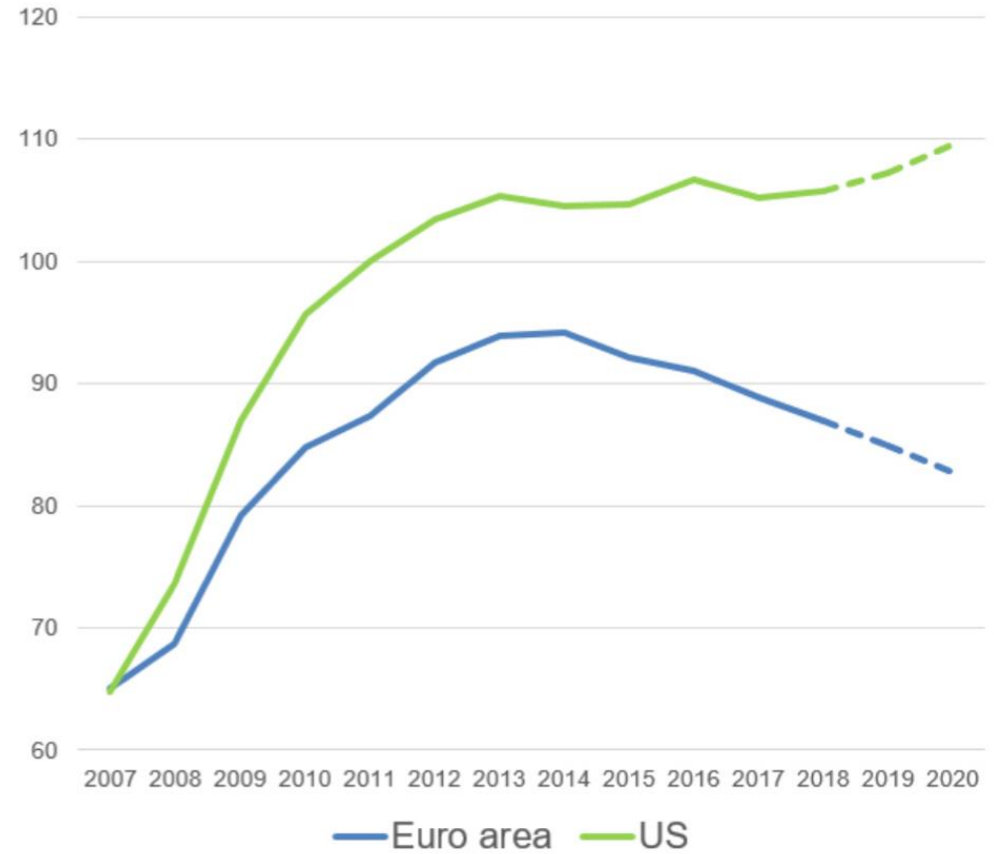
EUROPE'S ECONOMY IS DOING WELL

20+ quarters of continuous growth for the euro area



Source: Eurostat

Euro area and US government debt (% of GDP)



WHAT TO WATCH ON THE SHORT TERM: STRONGER ROLE FOR THE ESM

As part of the Euro Summit decisions taken on 14 December 2018 on strengthening Economic and Monetary Union:

- **ESM will provide backstop for the Single Resolution Fund (SRF)**
 - To be introduced at the latest in 2024 (earlier introduction will depend on progress in bank risk reduction)
 - Backstop volume: up to around €60 bn, loan to be repaid by SRF to ESM within 3 to 5 years
- **ESM to prepare, design and monitor future country programmes together with the Commission**
 - ESM more involved in the design of policy conditionality
 - Future MoU signed by both the Commission and the ESM
 - Debt sustainability analysis done together with the Commission
- **ESM's role outside programmes**
 - The ESM will examine macro-economic and financial situation in all euro area member states for internal purposes
 - The Commission and the ESM will informally discuss analysis and assess macro-financial risks
 - The Commission may invite the ESM to join its missions related to economic policy coordination and budgetary monitoring
- **Improved effectiveness of ESM precautionary credit lines (PCCL and ECCL)**
 - The eligibility process for the precautionary credit lines will be made more transparent and predictable

Euro area finance ministers to prepare necessary amendments to ESM Treaty for new mandate by June 2019

WHAT TO WATCH ON THE LONG TERM – 4 MAIN TOPICS

- **Capital Markets Union** needs to become a top priority
 - Development less than 10 years ago
- **EU more attractive for investors** without undue barriers
 - Concrete idea **European Debt Distribution Instrument**

BUILDING THE FUTURE OF MARKETS – European Debt Distribution Instrument

- Bond market infrastructure not changed since 1990s
- We launched new technology idea for **distribution of public debt instruments** in 2017
- Need for a **European debt issuance platform**
 - single and synchronized system front to back
 - More efficient issuance process for issuers, banks and investors
 - Neutral, pan European and harmonised
- **ECB launched public consultation** last week
 - Deadline 9 July 2019
- Not only a great new technology, but also **strengthens euro as currency and deepens CMU**



"It would be very good if we could create a more integrated capital market in Europe. It makes sense to create a debt issuance platform for the public sector. The ECB could have a leading role here. It would be an important contribution to Capital Markets Union."

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SSA

ESM keen to develop SSA bond platform

The European Stability Mechanism is interested in developing a primary bond issuance platform for the euro public sector market. It argues that such a platform would create a more liquid market and contribute to the advancement of the EU's Capital Markets Union.

By Burhan Khaddaj 01 Apr 2019

"Around two years ago, I started to argue that it would be very good if we could create a more integrated capital market in Europe, also in order to foster financial stability," said Kalin Anev Janse, secretary general of the European Stability Mechanism, in an interview with Germany's ...

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WHAT TO WATCH ON THE LONG TERM – 4 MAIN TOPICS

- **Capital Markets Union** needs to become a top priority
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- **EU more attractive for investors** without undue barriers
 - Concrete idea **European Debt Distribution Instrument**
- **Creation of a Safe Asset** to integrate markets and attract global investors
 - U.S. issuance much higher; DE, NL, FI, AT, ESM and some others current safe assets
 - Creation more liquid and deeper Euro area market for securities
- **Strengthen the role of the Euro**
 - Move towards a **multi-currency system**

What was the world currency of 17th and 18th century?

Design a fairer, equal and more balanced global system for 21st century

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Moment has come to move towards a fairer global financial system

From Kalin Anev Janse, Luxembourg



Traders in the 17th and 18th centuries needed the Dutch guilder © Alamy

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The are challenges – Europe will come out stronger

Most important peace – for 70 years - and prosperity

We all need to live up to expectation of European Voters

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