

Nicola Giammarioli in interview with Skytg24 (Italy)

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Interviews

ESM



Transcript of interview with ESM Secretary General Nicola Giammarioli

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Interviewers: Andrea Bignami and Sarah Varetto

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Skytg24: The ESM is the main topic of criticism in current Italian politics. Yesterday Premier Conte reiterated to reporters that he would still decline the €36-37 billion that the ESM could give now. He prefers not to activate the credit line. Meanwhile let's clarify: how does the ESM work?

Nicola Giammarioli: The ESM is an institution that was founded in 2012 by euro area countries and raises funds in international financial markets through the issuance of bonds, which we can call eurobonds. These funds are distributed to countries that request them and to date we have provided loans totalling €300 billion to five countries. But this is history, this is how we dealt with the financial crisis in

2010/2012.

In the face of the current pandemic crisis, we have put in place a new system to help countries. This is a credit line that was approved last week by our Board of Governors, who are the euro area Finance Ministers. This credit line, which is available to all 19 euro area countries, amounts to 2% of the GDP of each country, for Italy it is €36 billion, €25 billion for Spain, €48 billion for France, and the only condition to grant these loans is that the funds are spent on health-related expenses.

How is it activated?

Last Friday the credit line was approved and therefore it is now available. Individual countries need to apply for the loans. Then there is an assessment, which has been sped up to the maximum and in fact has already been done, so within 2-3 weeks these funds can be made available.

So a person who asks the ESM for the money in 2-3 weeks could see it. In one instalment? Not like with Greece, where you wanted to push the country to do certain things, here there are no conditions attached...

Actually, the loan will be given in instalments but not because you have to respect certain conditions, only because we have to raise these funds in international markets so there is a technical timeframe from the moment we raise the funds.

Of course, but after three weeks the funds can be made available...

What are the conditions of this new ESM loan? There has been a lot of talk in our country about what the conditions for repayment are and what are the conditions for granting the loan, when it will have to be repaid and of course the interest rate associated to it.

The credit line is available until December 2022. Once it is activated, the money can be disbursed over a period of a year. Once disbursed, obviously being a loan, it must be repaid. The decision taken by the ministers was that the loan will have a maximum average maturity of 10 years, so, for instance, it should be repaid from the fifth year through the fifteenth year in instalments. The cost is very low because the fees we charge on our loans have been reduced to a minimum, about 10 basis points, and these must be added to the cost of financing ourselves, which to date is

negative even up to 10 years. So if we want to do a rough calculation, the cost will be around zero, so you do not pay interest.

No interest? It's not often that I go to a bank and don't get paid interest on a loan I am given...

We are not a bank and we are not a for-profit institution, we were set up to help our member states.

Cyprus has announced that it will be the first country in the euro area to use ESM funds, is that one of the papers you have on your desk?

Actually no. I also read the press reports this morning but so far we haven't received any request. I think all countries are considering whether or not to apply for our loan as well as to draw on other European funds that have been made available by the European Commission or the European Investment Bank. As far as Cyprus is concerned, the only thing that I can see is that as soon as the news came out, and I repeat, to this day there has been no request, the markets have reacted very positively and Cyprus' spreads have dropped substantially. So, the whole debate about stigma surrounding the ESM loan seems to me unfounded, the markets are reacting well to this credit line.

How can you verify whether the countries that apply for the loan will actually use it for healthcare costs?

Before these funds are disbursed, there will be a table agreed with the requesting country, the ESM and the European Commission, in which we will write down the expenditure items and the corresponding amounts. After that, there will be a constant exchange of information between the country and mainly the European Commission, which will verify the expenses were made in the agreed amounts and for the agreed purposes. Obviously, there will be no police coming from Brussels and Luxembourg to Italy or Cyprus or France or Spain. There will be an exchange of information as there is constantly with the European Commission, a collaboration.

How far can you go for an expense to be considered under this specific credit line? I.e. how wide is the definition of healthcare costs? Because, in reality, even making a company safe, what I spend on workers for their

safety can be a related expense, perhaps not directly as the construction or extension of a hospital but still quite linked to the COVID emergency.

This needs to be defined in detail but we have already published a simplified table showing the expenditure items that can be considered. Direct and indirect expenditures in the healthcare sector. So I think that can also be included. All those health expenses for example to restructure, or reform healthcare spending, ranging from the reconstruction or construction of hospitals or even for example to reorganize the support given throughout the territory, a topic that is much debated in these days in Italy. The expenditure must be linked to healthcare but in a very broad sense, so it can also contribute to the reform of healthcare systems.

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