Interview with The Wall Street Journal

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Bailout Fund Boss Says Current Greek Debt Analysis 'Meaningless'

Klaus Regling, the managing director of the European Stability Mechanism, the euro-zone bailout fund, spoke to The Wall Street Journal about a range of issues, starting with Greece's debt load. This is a transcript of the interview with Matina Stevis and Gabriele Steinhauser.

WSJ: Starting with Greece, which you said is a bit of an outlier even within the program countries. What is your thinking regarding Greece's banking sector and the potential need for further recapitalization? We know there's some money left over from the [bailout fund] in the HFSF [the Hellenic bank rescue fund] and that there's upcoming stress-testing by the end of this year. Could you describe what the process would be, should there be any additional needs for capital injections into Greek banks?

KR: At the moment, I'm not aware. In Greece, as in the other program countries, we know the banking system quite well because we have been very much involved, also in Cyprus, Portugal and Ireland. As you know in Greece we have disbursed €50 billion for bank recapitalization from the EFSF. Most of that money was used to recapitalize the four largest banks. These banks are now well-recapitalized, they have Core Tier 1 capital ratios well above 9%. So that's fine and indeed there is some money left in the HFSF and some of that may be needed for smaller banks, I don't know the extent. We have to wait and see what the stress tests tell us. But as far as I know, the big banks are in good shape.

WSJ: Should there be a need to tap whatever is left over in the HFSF for these smaller banks — theoretically speaking — could they get capital

injections immediately or would the new state-aid rules that came into force on Aug. 1, about the way in which a recapitalization should take place, kick in? I.e. these banks would need to go to private markets and then to shareholders etc., before they tap the HFSF?

KR: That has not been discussed in the Eurogroup so I don't know what the Greek thinking is on that, I haven't discussed it with the HFSF, so I cannot give you a precise answer on that. But you're right that there is a general understanding that the state-aid rules would apply in any case. They are new –as of August 1. My working assumption would be that indeed –and I'm sure they must comply with state-aid rules. We know that DG Competition is very, very focused on that and very strong, and nobody can stop them. It's good that way. In Europe the single market needs a strong competition authority. It has to be done, if there is a need, which I don't know, it has to be done in that context.

WSJ: Again on Greece with regards to the discussion about debt reduction you are due to have next year, from a legal, statutory point of view, do you see the ESM being able to take losses on principal loans?

A: No. I hear there's a broad debate out there on debt reduction. I'm not convinced that this is necessary. One should remember that the official sector is providing financing to Greece on a very long-term basis: the average maturity of the second program is 30 years. Interest rates are extremely low because they are our funding costs plus a few basis points added, and when you calculate that in net present value terms, that's the equivalent of a huge haircut. From the Greek perspective there's a huge grant element in the financing we provide without any budgetary cost for our member states, of course. And it comes from long maturities, low interest rates and the fact that even some of the interest rates are deferred –we have deferral on interest payment for ten years as part of the second program. When you add all of that up it's a huge grant element. And that's economically the equivalent of a haircut. I think people have to do their homework and look at it that way. That can go a long way.

WSJ: But if you look at the debt projections that we saw even last December, the long maturities, the low interest rates, all of that was already in place and still the debt projections were off the targets. There was this gap of the 120%-by-2020 and less than 110% a few years after. So there was big question mark. Although it's fair to say it's already quite

generous terms, it's clearly not enough to hit those targets.

KR: But that's exactly the point. It's not sufficient to have a target of a certain debt ratio. It's meaningless. Because if there's a debt level of 120% at a certain point in time, it makes a huge difference whether the country has to pay market rates on that –which at the moment would be 9% and even if that comes down to 6%- or whether it pays the interest rates that we charge, which is more like 1.5%. That's one-quarter or less. One can not only look at the debt level or debt ratio, that's an inadequate analysis. One has to look at how it's financed. Many people look at it the way the IMF does because the IMF often provides financing for 10 years and therefore it's very important what happens 10 years from now. But we provide financing for 30 years. And therefore it's not that important what happens 10 years from now because we will continue to be there financing the largest share of the debt at very low interest rates. And to look only at the debt ratio is just an inadequate analysis.

WSJ: So you're basically questioning the methodology that underlay the agreement that was reached last year. Everybody has always questioned how meaningful these long-term targets are given the uncertainty that surrounds them, but you're questioning them on another level, whether it makes sense to look at the level of debt?

KR: Yes, at least one should not only look at the level of debt. One has to look at how it's financed. And we know today that the EFSF represents the biggest share of Greek public-sector debt and that it will continue to be financed for the next 30 years at very low interest rates. That has to be taken into account, it was not taken into account sufficiently in the past.

WSJ: Are other people coming around to that line of thinking?

KR: Well there has not been a long discussion on that over the last few months, but I think that when we get to that discussion in the next nine months, then this will become an important point.

WSJ: It's impossible to have this conversation without mentioning the IMF's role in the constellation of lenders. You're clearly saying that you're in this for longer than the fund; you're putting a lot more money in it than the fund; and you have pointed out that you're doing it at much better terms than the fund, i.e. cheaper for a longer period of time. Does that

mean that, through your board and the representatives, you intend to more or less put your foot down when it comes to negotiating this and just make sure that it is known that you are the senior creditor?

KR: The EFSF does not claim to be the senior creditor. But I think everybody knows that it is the largest creditor. What the Eurogroup will say on this I don't know because we haven't discussed it in the last few months, but I expect it will become an important argument.

WSJ: Part of this is not just about politics it's also about somehow addressing the problem of high debt on a policy-making level. So what you've told us now is that debt-sustainability analyses in and of themselves are not sufficient to give us a full picture.

KR: I'd put it differently. Debt-sustainability analyses are very important but one has to take into account more factors than only the debt level, and I think that's not what has always happened.

WSJ: Would you then make a broader point for other member states, for example there is growing concern about Portugal's ability to repay its debt ? Would this broader and less static view of ability to repay debt come into play?

KR: Yes. The shares are different in every country. Greece is the most extreme case, also in this respect of how much of its public debt is held by the EFSF, but in a broader sense a similar analysis must be done for other countries. It's not sufficient to look at debt ratios without taking into account at what interest rates the service takes place.

WSJ: Does the IMF share its specific methodology of putting together the DSAs with you?

KR: Yes, we are involved in that information because we also provide some of the input. And that's unavoidable because our share is so high that they want to hear our assumptions about interest levels. We are involved, we are not responsible for the IMF's debt analysis but we are involved in the ground work.

WSJ: As someone who oversees a discussion with multiple partners, would you say that the reduction of the debt in Greece or discussions about

potential additional debt is more controversial for the partners that fund the ESM?

KR: I don't see personally that there will be a reduction in public claims on Greece. But that's my personal view. That would require budgetary financing and that would indeed be very controversial.

WSJ: When you were discussing creating Japanese conditions for Greece, in terms of very high debt but very favorable borrowing terms, is this then a situation that the ESM would maintain for a long period of time?

KR: Well that's already decided. That's been decided for the next 30 years. We don't need additional decisions for that.

WSJ: Yes but they need additional borrowing and the borrowing won't always be as cheap as it is from the ESM. At some point they have to go back to the market.

KR: The EFSF's claims are big chunk of debt and what happens on top of that I cannot predict. I also don't know how much is needed. It depends on so many circumstances. We have to wait and see. I'm surprised some people say there has to be debt reduction.. I'm surprised about the certainty with which people say that, because the certainty is not that clear.

WSJ: If this is the more appropriate way to look at debt levels, why wasn't that done a year ago? This isn't some epiphany you just had last week, I imagine.

KR: I think this is a process and everyone is learning. I'm sure we'll have this discussion.

WSJ: But you haven't brought it up at all? Has it been discussed at some other level, have you mentioned it? Where are we with this view?

KR: I cannot tell you what happens inside the Eurogroup and the other bodies. But I'm sure this will come up in the future discussion which will take place, because debt sustainability will be an issue. The Eurogroup has also made clear that, as long as Greece continues to meet conditionality, they will not be left alone. So we will discuss it in that context.

WSJ: It does seem to fit with a lot of other statements: We had Mr. Schäuble saying before the elections that there will be more loans. Other German politicians have been very clear that there will not be a cut to the debt. Now you're basically giving an argument to that position. It seems rather strategic.

KR: I can't say more. This is an economic analysis of how the situation is. Politicians then have to take the decisions but I can point out how the economic circumstances are, what it means that the EFSF has been asked to provide very long-term financing, the longest of any of our borrowing countries. As you know Portugal and Ireland extend to 22 years but Greece is 30 years on average. We have deferred interest payments. The interest rate is very low. And one has to put all that together.

WSJ: Does that come with extended conditionality and extended scrutiny?

KR: At the moment we have conditionality into next year. The IMF has actually another year of conditionality because their program runs another year. And I cannot say what happens at the time the program expires. So we have to wait and see. But you know the EFSF always only lends with conditionality. There's no EFSF lending without conditionality.

WSJ: The lending with conditionality is about to conclude in a few months. The question is whether the repayment period will come with conditionality.

KR: No, that is like the IMF, once disbursement of new loans ends there is no conditionality involved. Of course every euro-area country is also under the general governance of the euro area, with two-pack, six-pack, country-specific recommendations, European Semester, all of that, which address the main issues for every country. And that of course continues.

WSJ: Ireland exits the program at the end of the year. You have been very complimentary about its ability to borrow in the markets — although 4% may sound too high for some people to be your main financing rate for 10-years. Given Ireland's expressed interest in tapping the OMT [the ECB's open market transactions], do you see an ECCL [Enhanced Conditions Credit Line] that opens the way to the OMT as a good option for Ireland coming out of its bailout as a good performer?

KR: There are some talks about that, but it’s too early to have any conclusions. By the way I think that a less-than-4% rate for a 10-year government bond is pretty good. Also if we think about the next few years, about the further normalization –you know my thinking that we’ve come a long way but we’re not there yet- the further normalization of the euro area situation will of course mean that in the Northern European countries’ interest rates will go up as part of the normalization. Spreads between Northern European countries and the periphery will shrink a bit more, but that means that the absolute level will be not much below four after a normalization, because you have these offsetting trends. In my world of economic thinking, a normal long-term interest rate would be equivalent to nominal GDP growth –so Northern European countries would have higher interest rates at the end of the crisis, but that means the end product for countries in the periphery will not be much below 4%.

WSJ: Perhaps we can talk a little bit about the issue of retroactivity of bank debt in the Irish context. Do you think that’s an option for Ireland? Dublin has certainly not given up hope.

KR: Yes, I know that, but I also know that some other member states of the euro area have said that this will be either difficult or impossible. The agreement of the Eurogroup on the direct bank-recap instrument, on the main features so far, which is not a final agreement, say that in exceptional circumstances, on a case-by-case, this may be possible. To do it would require consensus. That requires in some member states parliamentary approval, and that in my view seems to be very, very difficult. Direct bank recap as part of a banking union is a very useful instrument. And in the long run, when we are under a common supervisor, it will make some sense conceptually to have common European financing. Because if something goes wrong in six or eight years, it will be the mistake of the common supervisor, European financing can then come into play. If something goes wrong now, or in the near future, one cannot blame the European supervisor for what is the mistake of national action and therefore some countries are reluctant to finance that together. At the same time the euro area governments have committed to break the link between sovereigns and banks.

WSJ: While we are moving towards banks, obviously the big thing other than Greece this fall will be the asset-quality review, how it’s going to work, what the conditions will be. Everybody is talking about backstops. What does “national backstops” actually mean? Is that just a pot of

money, or is it a very firm commitment to restructure, to resolve if necessary?

KR: Of course we don't know the final version of the BRRD but we know the preliminary version, we know the state-aid rules, on bail-in first. The BRRD talks about 8% of liabilities and that's quite sizeable. When I look at what's happened over the last few years that would cover most of the cases .

WSJ: So you feel that in the context of the asset-quality review it's not going to be the state-aid rules, it's going to be the BRRD [proposed new EU-wide bank-restructuring rules]?

KR: No, the minimum is the state-aid rules because they exist. I work on the assumption that the BRRD will be finalized and be in place the moment the asset-quality review is finalized. But there's no certainty, we don't know.

WSJ: It might be agreed but at the moment, in the Council view, bail-in wouldn't start until 2018. And state aid only reaches to the junior bondholders, right?

KR: Yes, it's capped earlier.

WSJ: Which BRRD isn't. So, which rules would apply?

KR: At the moment it would be state-aid rules and we have to wait for the final version of the BRRD –we don't know what the final version will be. We know of different views, that has to be sorted out.

WSJ: But you just mentioned the 8%, which seems to me that you think it will be the BRRD rules that go beyond the state-aid rules.

KR: I don't know. You know very well yourself that the BRRD, if it's maintained, the wording says there can be exceptions. This is essential to maintain financial stability. In general let me say that I'm quite in favour of finding ways of using less taxpayers' money. That's the ultimate objective of moving in that direction of bailing-in, and I think that's appropriate and widely shared among governments and parliaments.

WSJ: So before the results of the stress tests are known, even before the stress tests and the asset-quality review happen, how detailed do authorities have to be on the one hand on backstops and on the other

hand on restructuring rules?

KR: Well hopefully everything will be clear by then. Because that's what markets want to see, we know markets hate uncertainty. So I hope that it will be possible before the European Parliament closes its business for the European Elections that all this is agreed with the council.

WSJ: Does that mean in practice that every country says, "OK, here is a pot of money that we have in case that we need to recapitalize, and here are the rules that we'll use when we have to restructure"?

KR: Yes, and I hope that, as much as possible, the rules will be harmonized because otherwise fragmentation continues if the national approaches differ too much.

WSJ: Do you think the ECB, the commission and yourself — the actors involved in this exercise — have the power to ensure that it will be harmonized? That the same rules apply to a German bank apply to a Slovenian bank?

KR: I hope that they are as harmonized as possible. It will not be easy, I know that, because of different interests, different strengths in different countries. But I think from a market perspective it would be advisable to have rules that are fairly similar between the countries.

WSJ: How far will you be involved in these discussions? The ECB, Mr. Draghi, has said that they plan to make an announcement on the asset-quality review sometime in October. Who has input on that?

KR: It's the role of the finance ministers of course in the Eurogroup, but banking union goes beyond the Eurogroup so it's also the ECOFIN council. As you know, I'm sitting in the Eurogroup, so I can advise ministers what the ESM is able to do, also what I hear – and that's part of my role –what I hear from investors, from markets, how they would react to certain decisions. But it's of course very much a political decision of finance ministers how to organize this, and they have to agree with the European Parliament.

WSJ: You pointed out in the parliament that allowing the ESM to lend money temporarily to a potential single-resolution fund would require changes to the ESM treaty. That you're not advocating that, but you also

said that these loans would be temporary. If not that solution, what's another option? People always say "there's several options." I haven't heard one apart from this.

KR: Well the national governments can of course provide financing. That's what we have seen in the past, that's what happened during this crisis. In many, many, probably in all or most countries –including in Germany- a lot of public money has been used. So that option is there. There's the national-resolution funds and there might be a single resolution fund, linked to the single resolution mechanism. It doesn't exist yet, it's something that will be worked on in the next few months and then that's where this debate came up, whether the ESM could be a backstop. And certainly to be a backstop for the single resolution mechanism we would have to change our own treaty, the ESM treaty.

WSJ: If I understand the Council's legal opinion on the SRM proposal correctly, once the SRM exists as an authority that can make decisions on bank resolution, these decisions cannot have an impact on national budgets because that wouldn't be in line with the treaty any more. So that means, at that moment, you need a fund, and if that fund cannot be financed by national governments, the money has to come from somewhere.

KR: The commission proposal doesn't talk about that. It also doesn't mention the ESM but it also doesn't mention any other options so this is something that needs to be worked on. I think there was some thinking given that the resolution fund will be fed by the industry over a 10-year period, to put up a pot of money equivalent to 0.8% of the deposits that this entity would borrow in the market against future revenue, but I've not seen any detailed analysis on that. So, the commission proposal is pretty silent on that.

WSJ: As an economist and as someone with experience of going to the market, on the basis of guarantees or future promises, do you think that's a realistic idea?

KR: I know from our experience it takes a few months to put up something like that.

WSJ: And you have explicit guarantees from sovereigns, which always have a tax base.

KR: Yes, otherwise we wouldn't have been able to do that and certainly not to the extent that we are doing it. And not so quickly. No, there are problems that need to be sorted out but I don't have the answers on that.

WSJ: But do you think one is right to have doubts on this commission idea that a fund that is based just on future earnings could go into the markets and raise money?

KR: Well, they haven't really spelled it out, but it's a consideration. In the end it means there's no precise idea at the moment how to do it. But, rightly, the ECB points out that it's necessary, so it's an area that we need to work in the next few months and I cannot tell you where we'll end up.

WSJ: But the ESM could play a role?

KR: We don't have an instrument at the moment, as you know. It would require a change of the ESM treaty according to lawyers that I have asked, so it would not be an easy process.

WSJ: Actually, how difficult would the process be? Seen as though it's not an EU treaty, it's the treaty of the ESM.

KR: Right, we don't need any referenda.

WSJ: It seems to me that the difference of adding an instrument and changing the treaty is mostly procedural, right? You would probably need parliamentary approval is some member states but an instrument already requires parliamentary approval in several key member states.

KR: Yes but only in some, five or six, whereas the treaty change, ESM treaty, requires involvement of 17 parliaments. It's more difficult.

WSJ: Given that the governments would already have to approve it, the difference isn't monumental…

KR: I don't know how difficult, I'm only pointing out that it requires an ESM treaty change and treaty changes aren't easy because as a process it involves all countries, all 17, from next year 18, all countries, all parliaments.

WSJ: How much time have you spent on Slovenia these past few months?

KR: Not very much.

WSJ: At the moment Slovenian government debt isn't that high, but private-sector debt is quite high and there is overlap between the private sector and the government. So, to a certain extent, any sort of restructuring that you do would also have a direct impact on government finances, in addition to the impact that it would have on the economy. IThat's another challenge that's different from what we've seen in Greece, in Ireland, in Spain.

KR: That's right, every country is different. So far, the Slovenian government tell us that they don't need any emergency financing. We know they already closed down two small banks. We know two of their larger banks may have some financing needs but so far the government tells they can cover that. They were able to issue bonds in the markets.

WSJ: Yes, but, then everyone said they didn't want a bailout. The Irish protested until they got a call. And one might argue that delays in this "I don't want a bailout"-"No you have to get one "-"No I don't want it"-"No, here have it", in the past in other countries have driven situations to a far worse place than they should have been. So, Slovenia tells you they don't need financing, do you think that others disagree about whether Slovenia needs financing?

KR: The government should know best. You're also right, this is the very normal IMF experience –I don't want to talk about specific countries now – but countries only come when they see no other alternative. But that's also good, emergency financing is what it says: emergency financing, so countries should only request it when it's really necessary, because it draws on the resources of other countries. Governments don't like to do it, we know that from the IMF experience, because conditionality means that the government loses some of its influence. So it's understandable that they do it late and it's also not wrong that they do it late.

WSJ: But we have seen situations where it has been too late. Cyprus took too long, I don't think that's an opinion I think it's a diagnosis from everyone.

KR: Cyprus is a very special case.

WSJ: Every country is different.

KR: It's different because Cyprus received financing without conditionality from Russia, and that indeed delayed adjustment. If they had not received the Russian loan, they would have needed emergency financing with conditionality earlier.

WSJ: At any rate, when do you think the situation in Slovenia will be resolved in either direction? Whether the government is proven to be right, or others, who say that Slovenia would benefit from aid, will win?

KR: Slovenia like all the other countries goes through the asset-quality review, they will do the stress tests, and then we'll have a clearer picture.

WSJ: Won't we have a clearer picture after their own asset-quality review?

KR: I don't know.

WSJ: Do you have doubts, are there problems with that asset-quality review?

KR: I have not seen any details and I don't know the results.

WSJ: But they are in the process of laying down the scenarios, etc.?

KR: It seems that they are doing something before the ECB does its common exercise, but again I haven't seen any details. Certainly I can't anticipate the results.

WSJ: You have made the point that the ESM should preserve its firepower for its primary purpose, which is macroeconomic financial support. So, if you don't have any bailouts you don't really have a reason to exist.

KR: No, we should exist and not use the money, like the OMT. It is important to have it. It's very important that the IMF has a lot of firepower, they have now around $800 billion, but have only outstanding $140 billion, and that's good. If they used all the money that would be really worrying, there would be emergency meetings to discuss whether they need to increase their firepower and that wouldn't be good. It's much better to have the firepower and not use it.

WSJ: What do you think Portugal's prospects are, coming out of the bailout? What can help bring down borrowing costs?

KR: One point is that Portugal did start six months after Ireland, so they are necessarily further behind. So it’s probably good that we have these six months and see how life develops. We also know why interest rates went up in Portugal after they were able to access the markets. They had a political crisis, the finance minister resigned. I think that they have returned to a stable situation. If they demonstrate that to the markets that this was an episode earlier this year and there will now be stability and they’ll continue to implement the program in a convincing way. The review mission is there at the moment to discuss that. That will have a positive impact. So, I think there’s a good chance if that happens, that the interest rates that we see at the moment will come down again.

WSJ: And what do you think about the Lisbon request to ease deficit targets for this year? The political challenge comes from the constitutional court. We know that they’ve taken out some measures, and there are other measures that could be challenged by the court. The court’s role is cemented in the constitution so there’s no way to get rid of it. Do you think in that context, instead of fueling further political animosity over meeting a deficit target, it might be a good idea to take a step back and let the government get some early political wins following this instability, by cutting the deficit target?

KR: As you know the deficit target has been moved already twice in the case of Portugal, as in the case of some other countries. Beyond that I can only quote Mr. Dijsselbloem, the president of the Eurogroup, you heard him at the last press conference that the Eurogroup thinks that Portugal should stick to its deficit targets.

WSJ: But you’re not part of the Eurogroup. What do you think?

KR: Well, the finance ministers in the Eurogroup also are my 17 bosses. That’s very clear. These kinds of things are very important, very political, and the Eurogroup decides on that. And then Mr. Dijsselbloem announces the outcome of the discussion.

WSJ: Do you think the Eurogroup has become slightly politically more intelligent towards what’s happening in the program countries? Today you spoke about the time-lag between how improvement is felt on the ground by people and how much sooner they’re reflected in economic indicators. Many people in euro-zone finance ministries have been speaking about the

political challenges they face, do you think these considerations are getting factored in more in the Eurogroup as a collective decision-making body?

KR: I think they have been factored in already because fiscal targets have been postponed in Portugal, Spain, Ireland and Greece. That has happened already in the last 18 months. And rightly so, because that's the way the Stability and Growth Pact was reformed to have more space for structural targets. So the fiscal effort is fixed in structural terms so if the decline in GDP is larger than forecast, then the country doesn't have to add to its adjustment effort which I think makes a lot of sense in economic terms. That's why for instance the improvement in the nominal fiscal target in Greece doesn't look so big, we know that in cyclically adjusted terms it's 12% of GDP over the last three years, which is tremendous. And I think that's the right way to manage this very difficult process, because everybody's aware that in the countries, people suffer. That's very unfortunate but it's unavoidable because the starting position was as bad as it was in Greece. And also it doesn't help much to have a long debate about fiscal multipliers and all that, when the fiscal deficit is 15% of GDP as it was in Greece. Then the deficit has to be cut. It doesn't matter that much how big the multipliers are. Once the deficit gets smaller and one gets closer to the objective, of a balanced budget in particular, one can then draw on the normal approach of the Stability and Growth Pact and look at it in structural terms, the fiscal effort is defined in structural terms. But if the deficit, the starting point is so big, and nobody is willing to finance it, then the government has to cut back immediately. Without financial support from the EFSF, ESM and IMF the cutback would have to be even bigger because the countries would only be able to spend as much as they have in revenue. Then the adjustment is really brutal. So all our financing like a typical IMF program provides is to buy time. The adjustment as such must happen, but it can be spread over a longer period of time to make it easier for the people, that's the whole idea.

WSJ: You've made an extraordinary amount of references to the IMF today. You've introduced this narrative today, I'm noticing for the first time, where you're directly comparing the ESM in its approach to the IMF. Is that in preparation for the ESM's upcoming role front and center as the euro zone's crisis-fighting mechanism?

KR: We are a crisis-fighting mechanism, but we are not in charge of negotiating conditionality as the IMF is in its own program, as a part of the troika. I'm not questioning that. We will not take over that role in any way to be very precise. No, I have particularly in my country in Germany often drawn this parallel because there are many people in Germany who believe that what the ESM is doing and the euro area is doing via the ESM is completely new. They don't understand that this is built on the experience that the IMF has gained over the last 50 years around the world, in most cases quite successfully –yes. Look at the big cases: Turkey, Brazil, Mexico, Indonesia, Korea. All countries that in the last 25 years were in big crises and when the country was in the middle of the crisis, the people didn't know when the end would ever come. And these same countries over the last few years have been the stars of the world economy. Because during those programs the foundation was laid for the success later. But it takes a number of years to get there. And by the way, the IMF has never made a loss. In certain countries in Europe, people believe that the EFSF and the ESM will not be repaid. I think that's a wrong assumption but it's a very widespread one in Northern European countries. And that's why I draw this comparison, to say that we have not invented something completely new. These are well-established and proven recipes and approaches. And the IMF has never made any losses. I think these are important lessons for people to understand.

WSJ: Do you see the ESM as potentially playing the role that Olli Rehn has spoken about, or Jörg Asmussen has spoken about, as the European Monetary Fund for future crises, not the current one?

KR: These are ideas for the very-long term that would require treaty changes, EU treaties this time, so I'm not speculating about that. To get through the end of this crisis - I think we have come a long way but we're not at the end – the troika has to play its role. The IMF has to be there with its experience. In the very-long term I think Europe can probably do it on its own. The macroeconomic work that the IMF is doing I think will be in good hands with the commission in the long run –I'm not claiming that for the ESM, to be very clear.

WSJ: A quick follow-up on Greece. Do you believe that the thinking behind the debt-sustainability analysis has to change, have you already done one taking into account the long maturities, the very low interest rates?

KR: No but this will come up over the next few months. The next review will prepare and then as people begin to think and try to understand what happens under the current program.

WSJ: And who would run this analysis? Who would do it, the commission, or you? Will the IMF adopt the same thinking?

KR: It’s the job of the troika to look at debt sustainability. I’m sure they will do that. I’m sure there will be discussions in the euro working group and the Eurogroup, so many people can present ideas. But the work has to be done by the troika.

WSJ: On issuance, will you tell us what your strategy is and what the composition of investors is by origin –whether you aim to have more investors from certain regions.

KR: The EFSF has issued about €80 billion in bonds via the market and €25 billion outstanding in short-term bills –three-month and six-month. It’s also interesting that we issued those in negative interest rates earlier this year which helps to bring down financing cost so Portugal, Ireland, Greece benefit from that very directly. Of course Germany too had negative interest rates and in the end that’s a bad sign for the state of financial markets in Europe. It means markets aren’t working well otherwise negative interest rates shouldn’t exist, so I’m not very happy that they exist. But given that they do exist, it’s nice to be part of that. I think it demonstrates the high credibility that the EFSF has gained in the markets. We have issued bonds throughout the maturity spectrum from one year to a 25-year bond. As we grow the ESM has so far only issued short-term. The ESM will issue its first longer-term bond (and longer-terms means anything above three years) in October. And for quite a while both issuers will be in the market. I think that’s important to also explain to your readers because some people believe the EFSF will die and the ESM will do everything. As you know, the EFSF will continue to finance the remaining programs for Portugal, Ireland and Greece. Given that these are long-term lending commitments -30 years from Greece, 22 years for Ireland and Portugal- and that for our asset side has a longer maturity on our liability side, we have to permanently roll over bonds that we issued. So the EFSF will be in the market for these 30 years that we provide financing to Greece. At the same time the ESM will be in the market. As of today for much smaller amounts because the ESM has lent €41.3 billion to Spain for the banks and by the end of this week we will have lent €4.5 billion to Cyprus, so that’s half the program, it will be €9 billion in the end. The Cyprus and the Spain programs together are €50 billion, so that’s what the ESM has been doing and is committed to do. That will also be rolled over. The amount is much smaller but there will be the two issuers in the market in parallel. The EFSF has gained a very broad investor base around the world. Asia is 21%, Europe is 53% or so –not surprising that

Europe is the biggest investor- but we have been very successful in Asia and in the Middle East. We are attractive to sovereign-wealth funds and central banks in the emerging markets. We know that many of these central banks have accumulated huge amounts of foreign-exchange reserves so they need to invest. They are not doing us a particular favour, I'm very happy they are there, but as any investor even small investors, the most important principle is to diversify. So they also want to invest in euro, not only in one currency. I think the EFSF has gained credibility, so we have in a geographical sense a broad investor base.

WSJ: Are there thoughts for any form of innovation?

KR: That's possible. So far we've only issued euro bonds and euro bills. The ESM treaty allows us to issue in other currencies. We haven't seen the need for that because we have been so successful with our euro bonds. But that would be one logical innovation if we get to a limit where we think we need new investors, we could issue in other currencies. It would add to the complexity of our operation at home, because our currency is the euro, we lend in euros and we'd have to develop hedging strategies which we don't need at the moment. So we wouldn't do this overnight, we'd have to prepare.

WSJ: Thank you.

KR: Thank you.

Contacts

Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu