Will Europe emerge stronger from the Covid-19 crisis? - speech by Kalin Anev Janse

View PDF
17/11/2020
Speeches
ESM
Online

Kalin Anev Janse, ESM Chief Financial Officer
"Will Europe emerge stronger from the Covid-19 crisis?"
Central Bank Workshop, Euroclear
Online, 17 November 2020

(Please check against delivery)

Good afternoon from Luxembourg,

It gives me great pleasure to be with you, at this central bank workshop hosted by Euroclear. I wish I could be with you in person. Let's hope next year we can see each other physically.

The question that I was asked to answer today is an important but challenging one: "Will Europe emerge stronger from the Covid-19 crisis?" I believe it can. Let me tell you why.

The European Stability Mechanism (ESM) which I represent is a supranational institution just over eight years old. It was created during a crisis. A very different crisis to the one we experience globally today. But the ESM's role in safeguarding the euro area's financial stability remains.

The ESM's activities are funded by raising money from investors, including central banks like you.

In 2012, Europe was already in the grip of a sovereign debt crisis and the temporary fund, the European Financial Stability Facility, and its permanent successor, the ESM, had a role to help restore financial stability to the euro area. They did this by providing financial assistance to five countries who faced very serious difficulties. The countries were Spain, Ireland, Portugal, Cyprus and Greece.

These countries had to undertake reforms so that their economies could emerge stronger and more sustainable, restoring competiveness, and regaining market access. Already before the pandemic, these countries were among the reform champions in Europe.

The Covid-19 pandemic is a very different kind of crisis and without doubt, the most challenging economic and financial one we have faced in our lifetime. A second wave of the virus has hit Europe this autumn, uncertainty is high, yet hope for a vaccine has increased this month. The economic costs, however, continue to mount, and it looks like economic activity in the euro area will not return to its pre-crisis level before 2022.

Economies in Europe came to a halt in March and April. After bottoming out in April, the economy entered into a strong recovery phase, alongside the gradual lifting of the lockdowns. However, the recovery lost momentum this autumn, and may stall for a while as infection rates are increasing significantly and lockdown reimposed in all European countries.

When Covid-19 reached Europe, the region responded swiftly with an array of policy actions that calmed markets.

In spring, European Union (EU) finance ministers approved three safety nets to lessen the burden of the crisis catastrophe for member states.

Each of the three safety nets has a different purpose: First of all, there is the ESM's new credit line, called Pandemic Crisis Support. It is worth up to €240 billion should all 19 euro area countries request it. This credit line can cover direct and indirect health-care costs related to Covid-19. Meanwhile, the European Commission launched last month a backstop to protect jobs in the EU. The support is worth up to €100 billion. Finally, the European Investment Bank's €200 billion loan guarantees help support businesses in the EU. Collectively, that first support package amounts to €540 billion.

In July, the EU agreed on an additional €750 billion Recovery fund – the Next Generation EU.

So, combined that is a €1.3 trillion European response.

Meanwhile, monetary policy measures by the European Central Bank (ECB), and in particular the announcement of the new €1.3 trillion Pandemic Emergency Purchase Programme, have helped compress bond yields and ensured market access was not lost by sovereigns.

Investors praised this decisive, sizeable and swift response. Optimism around the euro was the highest it has been in a long time. And as well as seeking to overcome the human toll and economic costs of the pandemic, the policy response in Europe is being funded with Environmental, Social and Governance (ESG) in mind.

In mid-June, the ESM launched a Social Bond Framework, adhering to the Social Bond Principles of the International Capital Market Association. These principles are widely regarded as the gold standard in defining ESG instruments.

In the summer the Commission also adopted a Social Bond Framework supported by the ICMA Social Bond Principles.

The big boost to social bonds

Europe is already leading in the development of sustainable finance that includes ESG standards. The euro is the leading currency globally for sustainable and green finance on the capital markets with 45% market share versus 26% in US dollars and 29% for other currencies.

In social bonds, the euro takes up more than two-thirds of the market. Yet the sector remains small and sustainable finance requires a significant expansion, which it can now experience through the pandemic.

So far, the European Commission's SURE programme has approved over €90 billion of financial support to 18 countries in the EU. And together with the Next Generation EU, this will give sustainable finance a major boost.

As for the ESM's Pandemic Crisis Support, euro area countries have until the end of 2022 to apply, and then draw funds, worth 2% of their 2019 GDP. For around 10 euro area countries, our borrowing costs are lower than their own in capital markets.

The ESM has decided that the money raised in the market to fund the credit line would be mostly or entirely done through social bonds.

The social bond issuance of the European Commission and ESM could therefore add huge supply and expand the market for these issues significantly.

By becoming the global hub for ESG finance, Europe could boost its capital markets and promote the international role of the euro. Furthermore, the EU Green taxonomy is an important step in that direction. By producing the best rules, the EU could become the ESG benchmark the world adopts.

Europe's ESG ecosystem

We are, in fact, creating an "ESG" ecosystem in Europe. The euro is the largest currency in ESG. The largest issuers for ESG-themed bonds, the supranationals and countries, are in Europe. Similarly, most of the largest investors, such as pension funds, are also in Europe.

A further boost to the market's development came this year when ECB president Christine Lagarde hinted at using the euro area central bank's €2.8 trillion asset purchase programmes to pursue green objectives and fight climate change.

These kinds of initiatives are welcome. But as we face global problems in Covid-19 and climate change, central banks can all play a pivotal role by using ESG criteria for reserve management.
Already many of you buy ESM's conventional bonds and bills.

We have seen the share of bonds allotted to central banks increase in our euro-denominated issues. In 2017 you represented 7% of our investor base. It jumped to

25% in 2018, and 40% this year. If you add our US dollar issuance, central bank allotment rose to 44% from 33% in 2019.

In October, the ESM completed its 2020 funding needs with a euro-denominated bond. The ESM recorded an above-average central bank allotment of 72%.[1]

Europe has become an appealing safe haven for investments. There is optimism about the euro and Europe’s response to crises. Euro break-up is not a debate anymore and credit ratings have been going up for European borrowers. More issuance, therefore more liquidity. And Europe leads in ESG.

ESM the investor

And the ESM’s commitment to ESG is not only as an issuer, but also as an investor.

The ESM has paid-in capital of just over €80 billion from our member states, which ensures our top-notch credit-worthiness. The ESM is an active buyer of green bonds. In 2019 we more than doubled our allocation to green, social and sustainable bonds to €1 billion from the previous year.

The ESM also signed the United Nations-backed Principles for Responsible Investment earlier this year.

So to come back to the main question: “Will Europe emerge stronger from the Covid-19 crisis?” Despite the difficulties we are living now, I feel encouraged by the positive messages from investors, issuers and citizens. The euro commands a record 76% popularity level with its citizens.[2] Europe is committed to solving both crises, the immediate Covid-19 pandemic, and the long-term climate change challenge.

These global challenges are not national or regional. They are crises for humanity. We can only solve them by working together. So let’s seize that opportunity for the benefit of all.

Thank you for your attention.

[1] Euro transaction of ESM October 2020
[2] Flash Eurobarometer 481: The euro area (Nov 2019)

Author

[Kalin Anev Janse](#)
Chief Financial Officer and Management Board Member

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