

Kalin Anev Janse in interview with Dutch newspaper NRC

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Interviews

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Interview with Kalin Anev Janse, ESM Chief Financial Officer

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The unexpected winner from the corona crisis is: the euro. The common European currency has not only survived the biggest recession since the Second World War, but also seems to be emerging from it stronger.

At least, if you look at the huge demand from international investors for euro-denominated bonds. "En masse they are now buying the euro," says Kalin Anev Janse in a video interview. The Dutchman (38) is financial director of the European Stability Mechanism (ESM), an emergency fund with 410 billion euros still available lending capacity, that helped among others Greece and Spain through the euro crisis.

Anev Janse notices the hunger of investors for the euro on a daily basis. To finance the loans to countries, the ESM itself issues bonds, which Anev Janse tries to sell to investors worldwide. Normally during roadshows, now through Zoom or Webex. Earlier this month, the ESM issued two bonds worth 5 billion euros. The interest from investors was unprecedented: they subscribed for 70 billion euros. "The most striking thing", says Anev Janse, "is the increasing interest from international central banks that want to keep the euro as a reserve currency".

The same pattern was seen in October with bonds issued by the European Commission, to support funding to member states for short-time work schemes during the crisis (so-called SURE bonds). This bond was oversubscribed thirteen times. The corona crisis has resulted in hundreds of billions of additional collective European debt with the AAA rating, European safe assets. The EU recovery fund of 750 billion euros is also financed with European Commission bonds.

Anev Janse holds the second highest position in the Luxembourg-based ESM after German ESM Managing Director Klaus Regling. This makes him one of the most influential Dutch citizens within the monetary union. When the predecessor of the ESM, European Financial Stability Facility (EFSF), was established in 2010 during the euro crisis, Anev Janse decided to dedicate himself to the European cause. "I was the ninth employee. Next month I will have been with the ESM for ten years. So I can compare a bit how things were during the last crisis and how things are now".

NRC: What difference do you notice between the previous and the current crisis?

Kalin Anev Janse: When I walked into a room with investors back then, the sound of disappointment about Europe was often immediate. They thought the euro was going to fall apart. That idea has completely disappeared. After the last crisis, confidence in the euro was already rising. The architecture of the euro was strengthened, with the banking union and with the EFSF and ESM. 2020 has given confidence in the euro a big extra boost, especially because of the speed with which Europe took crisis measures this time. The European Central Bank's pandemic emergency buying programme came immediately in March. Then came the 540 billion euros rescue package from the ESM, European Investment Bank and European Commission in eight weeks. Then came the 750 billion euros EU Recovery Fund in two and a half months. Big investors see that Europe works. And that is why they see the euro as a safe investment.

What does it mean that such a broad portfolio of European safe assets has emerged?

It is beneficial in many ways. At the beginning of 2020 we had 800 billion euros in European safe assets, now with the European Commission, ESM and EIB we are going to reach almost 2 trillion euros in the next few years. It is good for the

financial stability of banks. They can buy more European bonds instead of national ones, which makes them less susceptible to the risks associated with national bonds. The latter was a problem during the euro crisis. It is also beneficial for European companies. When they borrow on the capital market, they can use EU bonds as a reference point, rather than national bonds which have country-specific risks. This reduces the cost of borrowing for companies. It is also good for Dutch pension funds, who will have more choice in safe European government bonds. And finally, it is good for citizens who invest: they can put more of their money in a safe European structure.

You say that international central banks want to hold the euro more often as a reserve currency. But IMF data shows that only over 20 per cent of international currency reserves are in euros and over 60 per cent in dollars.

From the beginning of the euro in 1999 until the crisis, that percentage rose from 17 to around 27 per cent. During the euro crisis it fell to around 19 per cent and is now rising to almost 21 per cent. I see and notice an upward trend: certain central banks that never bought our bonds before are now coming into my order books, for instance small central banks from Asia and Africa. And they are buying more. 38 per cent of our bonds were bought by central banks last year, a record.

Why is it important that the euro can take on a greater role as an international reserve currency?

A currency held as a reserve is a sign of success. I always look at it a bit historically. When the Netherlands was the world's leading economy in the seventeenth and eighteenth centuries, the guilder was the world's currency. Then, when the British Empire emerged, the pound became the world currency. After the Second World War it became the US dollar. You got to a 'dollarification' of the world market. The fact that the euro is now on the rise again has advantages for European companies in international trade. They become less dependent on the dollar and can trade products and services in euros more easily. The more the euro becomes a reserve currency, the more important Europe becomes geopolitically.

The Chinese renminbi is also on the rise: now only over 2 percent of reserves are in that currency, but that percentage is growing rapidly.

I believe we are moving towards a multipolar currency world, in which the dollar will remain important, but in which the euro and the renminbi will also have a large position. This is a reflection of the importance of the three strongest economic players in the world.

We are still deep in the corona crisis. Meanwhile, debt levels in Europe are rising sharply. A country like Italy now has a national debt of 154% of GDP. Does that worry you?

Not at the moment. I look at the affordability of the debt. All Euro countries now pay less interest on their debt than in the previous crisis. The debt is higher, but the interest burden is lower.

But then the ECB should not raise interest rates or buy less government debt.

As long as you are in a crisis, you need a European monetary policy that stimulates and supports, as well as a fiscal policy that continues to support the economy.

The ESM made available pandemic crisis support worth up to 240 billion euros in April last year. But not a single country has appealed for these loans. So what role does the ESM still have? Has it not been overtaken by the 750 billion euros EU recovery fund?

We are a lender of last resort: we help in a last instance, when countries can no longer access financial markets. The announcement of our pandemic crisis support alone had positive effects on financial markets. There is an assurance that the ESM will be there when things go wrong. Countries can still use it, until the end of 2022. Also to borrow cheaply, to cover medical costs. We have a AAA-rating, some euro countries do not have that. The fact that governments are not doing this so far could be partly due to the fact that countries that previously borrowed from us - Greece, Portugal, Spain, Cyprus, Ireland - had to go through reforms. The ESM loans now being offered in response to the pandemic do not contain such macro conditionality. But if countries can go to the market themselves and they don't want to use the ESM: that's fine. That's a sovereign choice.

So the ESM has not become redundant?

No, absolutely not. If you compare it internationally, the EU recovery fund is actually a kind of World Bank. It supports projects for sustainable infrastructure, for greening, etcetera. We as ESM are actually a European version of the IMF. The ESM is there to support the financial stability of countries and will soon have a greater role in assessing macro-economic risks of countries. In a way, we are successful when we do not provide any financial support to countries. Like a fire brigade: the less fire there is, the less you have to put out, the better.

In the discussions on both the ESM and the European Recovery Fund, the Netherlands stood out last year for its fierce opposition. As a Dutchman, how do you look back on it?

In the ten years I have been around the ESM, I have always seen the Netherlands operate as an important, constructive player. Many people probably do not know that the whole idea of the first emergency fund, the EFSF, came from the Netherlands, from the Ministry of Finance. The Netherlands often takes an outspoken stance in the European debate, but in the end we manage to reach a consensus. Sometimes very quickly, as you saw last year. I see the Netherlands as a good strategic player. A country with its own opinion, but constructive at the same time.

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