Remarks by Kalin Anev Janse at OMFIF/LBBW Euro SSA Roundtable

View PDF
21/01/2025
Speeches

Kalin Anev Janse, ESM Chief Financial Officer
Remarks at OMFIF/LBBW Euro SSA Roundtable
Moderated by Clive Horwood and Burhan Khadbai
Luxembourg, 26 November 2024

Kalin, talk us through how ESM's funding programme has developed and what you learned during the course of the year?

Kalin Anev Janse: 2024 has been a very interesting year from a markets point of view. The year started with the fastest interest rate growth environment in history and now we see central banks cutting rates. That completely changed the dynamics from the beginning of the year to the end. This puts investors and issuers in a completely different world.

In terms of trends, if I look at the ESM, we price now extremely tight. Only Germany, the Netherlands, Ireland and Luxembourg borrow at cheaper rates. This means 16 euro area countries pay more than us in the market, which makes us a true safe asset. Secondly, earlier this year, and for the very first time, we surpassed €1 trillion of outstanding European safe assets, combining the ESM, the European Union and the European Investment Bank. This is still less than the available capacity of these institutions, so there is scope for more.

What do you mean by capacity?

The lending capacity. The ESM has an available lending capacity of €422 billion [*€427 billion as of Jan. 2025*]. For the EU, in terms of NextGenEU, disbursement is around 40% at the moment. This means the EU, the ESM and also the EIB have space to increase their lending.

Coming back to the trends in the market, we have had the highest participation from central banks, with 36% of allocation to central banks in 2024, the highest level since 2011. On the other hand, Asian investors took up almost a quarter of ESM/EFSF bonds. We only had a higher participation from Asia in 2011, which is really at the start of when we were incepted and when we had a very small issuance programme. This shows that interest from central banks globally and from Asia is growing. We also see hedge funds coming as a bigger part of the order book. Finally, Luxembourg is really growing as an investor base. Almost 10% of the investment we get from the 20 euro area countries is coming just from Luxembourg.

Now, in terms of policy going forward, while the Covid response and the Green Deal were the main priorities for 2019–2024, the European Union (EU) strategic agenda for the next five years focuses on a free and democratic, strong, and secure, and prosperous, and competitive Europe. This includes working on European security and defence, Europe’s competitiveness and deepening the single market. If you want to think through what will happen in the next five years, the reports from Mario Draghi and Enrico Letta are a must read.

You have just come back from South Korea. Tell us why you were there and what the view of European safe assets is from that part of the world?

There were three reasons why we were in Korea. Firstly, they are large buyers of European safe assets. They like the fact that we are triple-A rated, and they look at EU, EIB and ESM/EFSF pretty much in the same way. They see them as a blended European credit. For example, if you only buy Germany, France or Italy, you take a country risk. But if you buy these three institutions, you buy safety and security in the euro area or in the European Union.

They have increased their limits in European safe assets because there are more European safe assets out there. Asian central banks see safety and security in Europe, and they also want to diversify away from the dollar. You see that dollar holdings in central bank reserves are going down. USD holdings by reserve managers were around 70%, 20 years ago, and now they're around 55%. The euro is the second currency of choice after the US dollar. Global reserve managers are holding around 20% in euro. As the euro area represents just 17% of global GDP, we are punching a bit above our weight.

The ESM was in Asia for another two reasons. One is that we buy Korean assets ourselves. So, we are a decently sized investor in Korean assets. And finally, the ESM delegation was also there to exchange their experience with the Bank of Korea around the idea to build an Asian safety net inspired by the ESM. In an op-ed for the Financial Times last year, Rhee Chang-Yong, governor of the Bank of Korea hinted at these plans by praising the ESM's 'established' and 'solid market-tested record'.

To what extent do politics and economics play a role for non-European investors when they decide whether to buy European safe assets?

It plays a very big role. On average, the first 40 minutes of a one-hour meeting are spent on politics and policy topics. Investors are keen to understand the impact that the US president Donald Trump's policy on tariffs could have on Europe, as a big exporter. They also ask about European economic growth. The growth engines in Europe are changing. The German economy is weakening, while, at the same time, markets are watching closely the political instability in France.

Some of the top performing countries in Europe are coincidentally the five countries that received ESM's financial aid. Ireland, Greece, Cyprus, Portugal and Spain. They all now see a tightening of their pricing; they pay less in the market. Cyprus, for example, has had several upgrades and their debt to GDP has gone down from its peak of just over 113% of GDP in 2020 and was on a trajectory to get to around 73% in 2023. This is now expected to fall further below 60% of GDP in 2026. This decline is unprecedented for the country and very good news.

What most investors globally want to see is how Europe will fare in a world that is changing geopolitically and becoming more fragmented. They want to see a stronger Europe, next to a strong US and a strong Asian continent.

In the long term, growth in Europe will be affected by three megatrends. One is geopolitical fragmentation. Europe, as an open, export-driven economy will be hit the hardest by fragmentation and disruptions in trade. Second is demographics. Europe is ageing. Today, the median age is around 45 years, and it will rise to 48 years by 2050. This seemingly minor increase in median age is, however, equivalent to a profound change in the ratio of workers to retirees: it is 3-1 today but will decline to 2-1 by 2050. This is a trend you see in Europe, but also Japan, China and South Korea. And third is climate change. Climate issues seem to be moving down in the agenda of priorities. But if you look at the long term, that is the number one priority. The transition towards a low-carbon economy is not only an environmental imperative, but also an economic necessity. The costs of inaction on climate change are an increasingly heavy burden. A burden that is shouldered by governments, businesses, and citizens. Again, take a country like Cyprus is looking at becoming a year around tourist destination, including by attracting digital nomads, because summers are getting too hot.

According to the IMF, global public debt of GDP was 87%. EU countries were around that level so do you think at one stage this issue will also come up, that there should be a debt ceiling of some capacity for Europe?

Europe has a fiscal framework designed to ensure the sustainability of public debt. The focus is now shifting towards EU public goods, which may require significant investments. In this context, European institutions can offer essential complementary financing.

To what extent will there be a new level for the European SSA market in the new year?

These are questions that we debate internally at the ESM. We look in detail at how volatility in swap curves develop. What you saw at the beginning of the year was very high volatility in two years and very low in 30 years. Now we are seeing a convergence. A factor of this changing environment is that we're expecting more rate cuts, so the inverted curve is not that inverted any more.

Secondly, you see more and more – which is a feature of pre-euro crisis - countries starting to price closer to each other when they were a bit wider before. You also see a tightening of EU, ESM, EFSF and EIB, which makes us even stronger as European safe assets.

Author

Kalin Anev Janse

Chief Financial Officer and Management Board Member

Contacts

[Cédric Crelo](mailto:c.crelo@esm.europa.eu)
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