

Pierre Gramegna in interview with WELT

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Interviews

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Interview with Pierre Gramegna, ESM Managing Director

WELT

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WELT: Mr Gramegna, congratulations on your new role!

Pierre Gramegna: Thank you very much.

WELT: What role do you see for the ESM in the future? It was founded during the euro crisis and proved its worth at the time. But in the Corona crisis there was a rude awakening. States in Southern Europe didn't want ESM loans because the protective umbrella is stigmatised in Southern Europe. Are you now running an organisation that will not play any role at all in future debt crises?

Gramegna: At the beginning of the year, I will meet with all 20 euro area finance ministers and discuss with them how they envisage the future of the ESM. It was created to help euro countries cope with the global financial and economic crisis from 2008. It has managed to do that. If the ESM did not exist, it would have to be invented as soon as possible. And I dare not even imagine what would have happened if the bailout fund had not existed during the so-called euro crisis. In recent years, however, it has been somewhat underestimated that the ESM arose from a crisis and was developed as a crisis instrument. Today it is clear that this role is not enough. In future, the ESM should also help to prevent crises.

WELT: Nevertheless, the problem remains that the ESM's reputation is so bad in southern European states that it is apparently politically impossible to accept loans there.

Gramegna: This assessment is based above all on the behaviour of the euro area countries in the Corona pandemic. Immediately after the outbreak of the pandemic in Europe, the ESM reacted very quickly and provided loans that could have been requested without conditions linked to reforms. No country took up this offer because all euro area countries continued to have access to capital markets at very favourable conditions during the pandemic. The ESM's pandemic loans were therefore not called, but they did help to calm the markets. In this way, the ESM has already played its role in securing financing for the member states. I think this is a good example of how the ESM can adapt to different crises.

WELT: The next test could come sooner than expected. Some euro area countries are very heavily indebted. Now interest rates are rising, and it is becoming more expensive for the governments concerned to service these debts. Are we facing a new debt crisis?

Gramegna: I say quite clearly no. We are not facing a new debt crisis. Quite the opposite. The euro area has shown that it is stable. If I had been told three years ago that two serious crises were coming to Europe, namely a pandemic and a war on the European continent, and if I had been asked then whether the euro area would be able to withstand this double crisis, I would probably have said that I was confident. But I would not have put my hand in the fire. And look at where we are today. The euro area has weathered two huge crises well so far. Europe acted very solidly with the NextGenerationEU recovery programme, the SURE programme for workers and the ESM loans made available. The European Central Bank has also supported the economy with an expansionary monetary policy and the markets realised that the euro area is very stable given this combination.

WELT: But it is precisely this expansionary monetary policy of the ECB that is now falling away.

Gramegna: That is correct. Nevertheless, I maintain that anyone who announces the next debt crisis today is mistaken. For one thing, the gross domestic product in most euro area countries has grown strongly after the end of the pandemic and that is helping now. Moreover, the money from the EU recovery programme will continue to flow over the next four years and support national economies. And the high inflation that worries us elsewhere will automatically lower the debt burden. I do not want to come across as a dreamer who underestimates the risks. But from my point of view, the positive factors outweigh the negative in the short-term.

WELT: Even if interest rates continue to rise? The ECB made it very clear last week that it wants to keep raising interest rates for a long time and thus unsettled the markets a lot.

Gramegna: For the debts that states have taken on in recent years, they pay very low interest rates that only rise slowly. Look at Italy. The interest burden there is much lower today than it was ten years ago. We do not have to worry about Italy now. That is one thing. The other is that we have the instruments we need should it become necessary. And do not forget that we will get a new powerful instrument when the new ESM Treaty is ratified.

WELT: In the future, the ESM is to support the Single Resolution Fund with loans if its resources are not sufficient to save all affected banks in the event of a banking crisis.

Gramegna: Exactly. With this common protection, we are putting another safety net for banks in the euro area and that of course reassures markets. It is the banks that must pay for this additional protection and not the European taxpayers.

WELT: But the additional protection will only exist if the ESM reform is ratified by all euro countries. And the procedure is currently up in the air. Although Germany has just ratified the treaty, now the Italian parliament is blocking the project.

Gramegna: It is good news that Germany has ratified [the treaty]. Italy must do its part to prepare Europe for the next crises. But I assume that Italy, which co-negotiated the reform, will fulfil its obligation, and also ratify it. There is a need for explanation in Italy, also

because the ESM reform has been strongly polemicised there. In any case, I am happy to discuss the reform.

WELT: A reform of the Stability and Growth Pact is currently being discussed among the euro countries. Less stringent requirements for highly indebted countries to reduce their debts are being discussed. The German government is worried about this. Are you too?

Gramegna: The Stability and Growth Pact is more than 20 years old. And we have seen since then that it leads to difficulties if this relatively strict pact is not respected. It is not a question of whether the debt rules become stricter or looser. They must be enforceable because that makes the rules credible. Then the markets will also have confidence in the euro area.

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