

Pierre Gramegna in interview with France 24

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Interviews



Main points of the interview with Pierre Gramegna, Managing Director of the European Stability Mechanism, with Ali Laïdi of France 24

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On the creation of the European Stability Mechanism

The International Monetary Fund was created at the end of the Second World War to help countries facing financial problems. European decision-makers felt that the euro area should have its own institution, a sort of equivalent, in the event of a crisis. The European Stability Mechanism (ESM) was created in 2012, in the wake of the financial crisis, the subprime crisis, in the context of the euro area sovereign debt crisis. It was acknowledged that the ESM was a necessity. It is an institution that was created a posteriori.

On the capital and modus operandi of the European Stability Mechanism

The ESM has paid-up capital of nearly €81 billion, a considerable amount. The ESM also has subscribed capital, which could be mobilised if necessary, that is even much higher [more than €600 billion]. Member countries' contributions to the capital are based on a capital key. This key is the result of a calculation based on a country's economic weight and population. Germany represents just over a quarter, France around 20%, Italy around 17% and so on.

This high level of capitalisation is intended to reassure the markets and enables the ESM to benefit from the 'AAA' rating from the rating agencies, the best possible credit rating. Thanks to this "AAA" rating, the ESM can borrow funds on the markets at very favourable rates. It can then pass on these favourable terms to countries affected by a crisis, which are obliged to pay much higher rates.

This is what happened in Greece and in the other countries that the ESM helped: Ireland, Portugal, Spain, and Cyprus. The five countries that the ESM helped had to pay such high interest rates that they could no longer refinance themselves on the markets. These rates were high because the countries in question had to pay a risk premium. The ESM therefore borrowed on their behalf and allowed them to benefit from these favourable rates. In return, the countries benefiting from ESM loans must take measures to structurally improve their economic situation.

The ESM's maximum borrowing capacity is €500 billion. At present, the borrowing capacity is €417 billion.

On conditionality attached to loans

Conditionality often gets bad press. It is politically difficult to cut public spending, sometimes to have to reduce social benefits, or to have to take other painful measures.

However, it is important to understand that the aim of conditionality is to get an economy back on track: to put public finances on a sounder footing and restore competitiveness. The aim is to eliminate the need for external support and to avoid continuing running deficits.

On the new European Stability Mechanism Treaty and its ratification process

The ESM was created in 2012. Its founding treaty is therefore just over 10 years old. Over time, it became clear that the ESM could do more. Competences were therefore added to the ESM and the new treaty was signed by all the member countries in 2020. However, to come into force, it must be ratified by all the countries. At this stage, all member countries except Italy have ratified it.

In Italy, the ESM has a negative reputation because Italy does not like its adjustment programmes. However, Italy has never called on the ESM, had no need to call on the ESM, and does not intend to call on the ESM. Italy considers that the new treaty brings improvements to the ESM but believes that these improvements do not go far enough. Dialogue with the Italian authorities is regular and constructive.

On the additions made by the new treaty

There are two main additions to the new Treaty.

The first pertains to the improvement of the precautionary credit lines. The emphasis here is on crisis prevention. If a country is suffering as a result of an exogenous shock, through no fault of its own, and its public finances are relatively sound, it can benefit more easily from financial support.

The second relates to bank resolution. As part of the construction of the banking union, European countries agreed to create a bank resolution fund. This fund, paid for by the banks and not by taxpayers, will have some €80 billion at its disposal by the end of this

year.

Once the new ESM treaty will come into force, the ESM will provide an additional safety net of €68 billion. This will almost double the capacity of the resolution fund.

On the integration of the European Stability Mechanism into the legal framework of the European Union

The ESM is an international organisation emanating from an intergovernmental treaty. It maintains very close links with the European institutions. For example, the European Commission is a very important partner and observer in the ESM's supreme decision-making body. The ESM and the European Commission also have prepared a memorandum of cooperation that will be signed when the new treaty comes into force. Cooperation with the Commission is essential. The same applies to the Eurogroup, which brings together the finance ministers of all the euro area countries.

We are currently analysing the pros and cons of integrating the legal framework of the European Union.

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