

Pierre Gramegna at Eurogroup, November 2023

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Remarks by ESM Managing Director Pierre Gramegna following the Eurogroup meeting 8 November 2023

I'll be briefly addressing three topics: macroeconomic developments first, by confirming that the ESM shares the analysis of the Commission that was just described; mainly with two things: that the euro area economy has shown resilience and that inflation is coming down. What I underline nevertheless is that the euro area remains quite fragile. Markets still see a 50% chance for this year to have two consecutive quarters with a negative [growth] rate, albeit at a very low negative rate. The conflict in the Middle East adds to these uncertainties and especially there is a risk it may have an impact on energy prices. So we need to remain vigilant.

As ESM, we think that two things are key here. We need to make sure that the fiscal policies remain measured and do not boost inflationary pressures on the one hand. The second thing is that an agreement on the future fiscal framework is of the essence before the end of the year. Because if this is not be the case, it would definitely increase financial instability.

The second point - on euro area competitiveness, I would like to really congratulate the Commission on the excellent study that was presented and that gave birth to a

very interesting discussion. The first lesson we learned in the past crisis is that it is key not only to have a good standard of living and GDP growth, but also that competitiveness prevents financial instabilities. So it's not only important to take measures to reduce expenditures, it's also important to have qualitative growth.

We highlighted as ESM one topic that maybe deserves more attention in the future, that is the ageing of society in Europe. The ageing of society means that the productivity of countries goes down and also implies that innovation will be reduced. What we need to counter that with is obviously high public investment in the dual transition that we know, but also make sure that we bring in private investors. In order to do that, we definitely need a Capital Markets Union, a topic that came up today in many of the points that we discussed.

Last but not least, I'm going to say a few words on the banking union update, where we had a presentation by the chair of the Single Supervisory Mechanism (SSM), Andrea Enria, whom I congratulated, like many others, for his stint of five years as the head of the SSM. I think everybody concurred that when he leaves, the SSM will be quite a remarkable achievement. We also had the presentation of the Single Resolution Board (SRB) on the banking sector by [SRB Chair] Dominique Laboureix. He explained to us that by the end of the year, the contributions will be completed. That was the time that we had given ourselves to also ensure the common backstop that is the responsibility of the ESM.

This year has offered excellent examples to show that, at times, there is a risk of instability that is unexpected, and that the issue of liquidity, for example, is of the utmost importance. Therefore, it is really key that by the end of the year, all countries will have ratified the amended treaty of the ESM, so that the common backstop can enter into force at the beginning of next year. The backstop discussion was first mentioned roughly 10 years ago in the Eurogroup. I remember those discussions because I was a Finance Minister at the time. The goal was to have the backstop eventually earlier than 2024, to have it already enacted in 2022. So now is really the time where we need to deliver and make sure that in these uncertain times, and times of volatility, we have this additional layer of protection. It would be unfortunate to miss this opportunity.

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