

Pierre Gramegna at Eurogroup press conference, February 2025

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Press conferences

Remarks by ESM Managing Director Pierre Gramegna Press conference following Eurogroup meeting Brussels, 17 February 2025

Good evening, everyone. Let me start by welcoming the Commission's recommendations for the euro area that have been endorsed today. This is a very important step, and it is critical that Europe sticks to its reform and policies in order to improve competitiveness, resilience, and financial stability.

Let me also echo the President of the Eurogroup and the Commissioner to say that the discussion on the state of convergence of Bulgaria towards adopting the euro was very encouraging. If all goes as scheduled, we will soon be able to start discussions with Bulgaria to join the European Stability Mechanism in due course, as was the case in the past with Latvia, Lithuania, and Croatia when they joined [the euro area].

ESM membership is very precious for Bulgaria as it will benefit from the solidarity of the European Stability Mechanism and of the safety net that it provides. For the euro area itself, it is also very precious as we will have a 21st country joining us. We look forward to working with the Bulgarian authorities.

On the macroeconomic outlook, as ESM I focused on how financial markets look at the geopolitical situation and the impact on the macroeconomy. You could say that markets are increasingly reflecting the heightened uncertainty in the markets. They have priced in some of the negative impact of the expected tariffs in Europe. As an immediate effect of those tariffs, there's going to be currency depreciation and trade disruptions that are expected to add to inflation in the short term.

In a second phase, inflationary pressures are expected to ease because of lower expected growth in Europe. But much remains to be seen as it is not clear how tariffs will be calibrated and implemented and for how long. And so this obviously makes reading the future even more difficult. As a result, markets seem to be adopting a wait-and-see approach.

This uncertainty implies continued volatility in bond markets. We have seen substantial moves in bond yields not only in the US, but also in Europe. Since September of last year, 10-year Treasury bonds have increased by 1%, from 3.6% to 4.6%, reflecting expected inflation hikes. German Bunds climbed by almost 0.5% in the same period, from 2.1% to 2.5%, mainly due to spillovers from the US.

In the context of heightened uncertainty and a rapidly evolving global landscape, I would add that it is crucial to uphold and support multilateralism and multilateral institutions.

Let me conclude by welcoming the Eurogroup work programme that the President has presented to us at the end of the meeting. It is a very ambitious one, with stock-taking on a regular basis to measure our progress, which is an innovation which we, as ESM, welcome. It is a very ambitious programme. It also mentions completing the banking union, which is a very important in particular for the ESM, as it includes the ratification of the amended ESM Treaty with the common backstop, which remains a priority. It also entails a discussion on the toolkit review of the European Stability Mechanism.

Response to question on how relaxing fiscal rules might affect bond spreads or the way markets look at euro area countries

First I'd like to highlight, as has just been explained, that there are mechanisms of flexibility that are embedded in the new Stability and Growth Pact. What the

President of the Commission and Commissioner Dombrovskis highlighted is that they're going to have a closer look at that. I trust that they will suggest modalities that take into account the complexity of the situation.

Let me also remind us that already when this new economic governance framework was discussed and agreed, the issue of defence was already quite present in the mind of all of us. In that sense, it is not a surprise, but I agree with what Paschal just said, that the sense of how important defence issues and defence expenditures are becoming, in hindsight with what happened in the last few days, was very obvious.

Response to question on whether the ESM had any estimates on how a ceasefire in Ukraine could impact the euro area economy

Your question about having a forecast of the impact of an eventual ceasefire is very difficult to do at this juncture. We haven't done it for the time being at the ESM. We might do it once the occurrence of a ceasefire becomes clearer. But as I have said in my introduction, it is very difficult to measure how the "tariff battle" is going to have repercussions on inflation. The first impact will be higher inflation, but if that inflation persists, it might then have a knock-down effect because interest rates might go up. So all these elements could contradict each other. So, having a global reading of the impact of the tariff battles, on the one hand, and the eventual ceasefire on the other hand, is extremely complex. But, obviously, that's what some institutions do. They make plans, they try to do a forecast. We might do one too, but we're not there yet.

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