Pierre Gramegna in interview with Capital.gr (Greece)

View PDF
27/10/2023
Interviews
ESM

Interview with Pierre Gramegna, ESM Managing Director
Published by Capital.gr (Greece)
26 October 2023
Interviewer: Spyros Dimitrelis

Capital.gr: Greece recently regained investment-grade status in its credit rating from Standard & Poor's after 13 years. Could you explain the significance of this for both the markets and the Greek people, and is this the final goal, or does more need to be done?

Pierre Gramegna: It's essential to recall Greece in 2015, when the European Stability Mechanism’s support programme was initiated. Very few would have expected the outcome we see today. The sentiment was that Greece could never make it. So this achievement is substantial and is the result of structural reforms and prudent fiscal policies.

Investment-grade is important for the government because it lowers its borrowing costs. This is also true for companies and households. This supports investments and fosters economic growth, which ultimately benefits the entire population.

In times of high interest rates and inflation, these advantages are particularly valuable. So, this is not just important for the financial world but for all Greeks in the long run.

Could you highlight the specific reforms you believe Greece should continue?

Achieving investment-grade status is a new beginning for Greece, but it’s not the end of the journey. Greece has the lowest level of investment grade. The goal should be to, step by step, aspire to an even better investment grade. And to boost investors’ confidence, Greece should continue with reforms.

Several reforms have already been implemented in various sectors, such as the judicial system and the tax administration, which has modernised and increased state revenues.

Maintaining fiscal prudence and generating primary surpluses is vital to reduce Greece's high debt-to-GDP ratio.

Structural reforms, especially in the banking and state-owned enterprise sectors, need to be completed to attract foreign investors.

International players in foreign banks have recently become interested in buying stakes in Greek banks. That is a good signal.

Greece has also sought to modernise some state-owned enterprises and some of these companies are now reporting profits for the first time in years. Better-managed state-owned companies can offer better services, and this is good for the Greek people.

Although the ESM has helped Greece a lot with its financial assistance, Greece’s debt is still high. Is prudent fiscal policy the sole solution, or are there additional steps to take?

Greece’s public debt is still far too high. Fortunately, a significant portion of Greece's debt is held by the ESM – and its predecessor the EFSF – with favourable terms, financed through very low rates and at very long maturities. This provides a level of protection in the current economic environment, which is characterised by higher interest rates. Besides the progress in reforming its banking sector and state-owned enterprises, which I mentioned earlier and should continue, there are still improvements required in the judicial system and further measures that can be taken to enhance the efficiency of the economy.

We have seen some concerns lately with rising interest rates in Italy, surpassing those in Greece. Do you see a risk of a potential debt crisis in the euro area, given the current high interest rates?

We should not look at this issue with excessive pessimism. In 2023, despite financial turbulence in the United States and Switzerland, the European Union's banking system remained resilient.

Households have accumulated savings during the pandemic, which can help cope with higher interest rates. Additionally, European countries can benefit from the Next Generation EU recovery fund, supporting them to invest more in the digitalisation and greening of the economy. Considering these factors, the euro area has managed well amidst various crises.

The additional financing costs are manageable. But governments will have to take clearer decisions on their budget priorities to build up buffers and be prepared for challenges in the medium to long run as growth slows and more challenges arise.

With the recent geopolitical instability in the Middle East, are there potential risks to the European and global economies?

It's hard to predict the duration of the conflict in the Middle East. Geopolitical conflicts have multiplied since the war in Ukraine, introducing an element of uncertainty for markets. While individual countries have limited influence, the concern about wars is on the rise, as discussed in the recent International Monetary Fund annual meetings.

There is a lot of debate around the reform of the Stability and Growth Pact. In your opinion, should Europe return to stricter rules as proposed by northern countries, or opt for a more flexible approach as advocated by Southern Europe? Do you anticipate an agreement before the end of 2023?

There is consensus that the existing rules of the Stability and Growth Pact are not fit for purpose anymore. Reforms should focus on clear, transparent, and observable variables and ensure debt sustainability. Equal treatment among countries is crucial, but most importantly, the new framework must be credible for both countries and financial markets.

A credible framework that also functions during times of crisis is essential. I encourage countries to find solutions swiftly. If a decision does not materialise, the existing rules will have to be applied.

Can we expect an agreement on these reforms by the end of the year?

Drawing from my long European experience, I am confident, and hope we can achieve an agreement by the end of the year. Europe has demonstrated the ability to make fast decisions under time constraints or during crises, as witnessed during the pandemic and the war in Ukraine. Although the process may be lengthy, the prospect of the escape clause expiring should motivate countries to reach an agreement.

Inflation has become a significant issue, both in Europe and globally. What is your perspective on the European Central Bank's policies in addressing inflation, given the criticism that they acted too late and are now doing too much?

Hindsight often leads to criticism of central banks and governments. It's more productive to focus on what has happened. After a decade of low inflation, central banks, including the European Central Bank, acted decisively when high inflation became evident.

Inflation is now falling thanks to the overall global developments – particularly those alleviating energy shortages and supply constraints – while the action of the ECB and other central banks is taking hold.

And although interest rates have risen rapidly, they are still relatively low compared to past decades. The fast-paced approach by central banks was necessary because very high inflation weakens people’s purchasing power, weakens companies, and creates uncertainty.

The results so far have been positive in terms of curbing headline inflation, although core inflation remains more persistent.

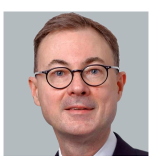
How close are we to a complete banking union? We have taken a lot of steps but how close are we to a full banking union in the euro area?

A banking union has many aspects. I would rather say the glass is half full than half empty. The next step is the introduction of the backstop for the Single Resolution Fund for banks, which is part of the new ESM Treaty. When that enters into force, we will have an additional safety net that will be good news. There are other issues and the EU finance ministers have been working hard to advance on them.

Author

Pierre Gramegna
Managing Director

Contacts



Cédric Crelo
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

George Matlock
Senior Financial Spokesperson
+352 260 962 232
g.matlock@esm.europa.eu