

Rolf Strauch at Eurogroup press conference, November 2022

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Transcript of remarks by ESM Chief Economist Rolf Strauch Press conference after Eurogroup meeting Brussels, 7 November 2022

Good evening. As already pointed out by President Donohoe and Commissioner Gentiloni, economic developments in the euro area remain challenging. Inflation continues to be high, even surprisingly high for both Europe and the United States. Sentiment indicators are very low, indicating a risk of recession. And professional forecasters are revising down their growth projections for 2023.

However, as was said, the euro area entered this energy crisis in a relatively strong position. Actual growth has surprised on the upside, also financial markets so far. In our constant interaction with markets, we perceive that they are concerned whether monetary and fiscal policy will be able to bring down inflation on the one hand and sustain growth on the other hand. They would like to see well-coordinated monetary and fiscal policy in Europe. During the pandemic, both policies were complementary. They were reinforcing each other; both aimed at supporting income and mitigating fragmentation.

We know that the situation is different today. The terms of trade shock today does not allow for full compensation of the income and wealth losses - it would drive up inflation. We see revenues increased beyond projections. This has improved fiscal

positions. But these are to some extent windfalls due to high inflation. And some of these windfalls have already been consumed for this year, as was also noted by the numbers mentioned before. Fiscal policies are expected to provide support in this energy crisis, but it is also constrained by higher borrowing costs. Overall, for that reason, support measures need to become more targeted to the most vulnerable and they must also be temporary.

Permanent measures could affect inflation expectations. They could also create fiscal risks for the future. This is why today's discussion, the common position of Member States and the guidance to be provided by the European Commission is so important. Therefore, also clarity on the EU fiscal framework matters for people and for financial markets. The rules need to be clear, realistic and enforceable.

Financial markets are also looking for joint European initiatives to address the energy crisis beyond REPowerEU and the recent plans to manage price developments in European energy markets. But asking for new initiatives is certainly premature. The full use of the existing resources, importantly Next Generation EU and REPowerEU should remain the priority. The euro area has managed this transition towards the new monetary policy cycle and the normalisation of interest rates very well so far. Difficult economic times are ahead. Common guidance and clear communication on the forward-looking fiscal stance will build market confidence.

During the Eurogroup in banking union format, we benefited from the interesting presentations of Mr Andrea Enria [Chair of the ECB Supervisory Board] and Ms Elke König [Chair of the Single Resolution Board], as was said. Let me just here mention that the ESM is operationally ready to provide the backstop for the Single Resolution Fund. Implementing this step would further strengthen banking union, it would increase the resilience of the euro area. Let me stop here. Thank you.

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