Pierre Gramegna in interview with ERT (Greece)

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Interview with ESM Managing Director Pierre Gramegna
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Journalist: Let us start with the European economy.

Christine Lagarde said recently that risks are everywhere. Uncertainty is everywhere. Asked if we are in a “whatever-it-takes” moment, she said that it is for the political leaders to answer.

Do you agree with that? What do you think that European governments should do?

Pierre Gramegna: It is important to recall on what occasion the expression "whatever-it-takes" was pronounced by Christine Lagarde's predecessor, Mario Draghi, back in - if I remember correctly - 2012. He said that because we were facing a financial crisis worldwide, and what, in particular, became known as the euro crisis. There was a risk of huge financial instability inside the euro area. When there is such a risk of financial instability, we need measures that are new, that are unheard of.

The European Central Bank took on new measures that had not existed before, and the European Stability Mechanism was created to safeguard the euro area. Now, what is at stake is the Russian aggression on Ukraine. We have had a war on the European continent, on the doorstep of the European Union, for three years. That is already very worrying. In the last couple of weeks, we have seen that support for Ukraine and for the allies of Ukraine - the European Union - on the part of the United States, is becoming less certain. We have huge geopolitical risks today. This is the comparison between the financial instability risks 15, 20 years ago and the situation today.

What does that call for? Well, in a few words, it calls for more Europe and not less, and especially more action in the field of defence.

You referred to defence, and that European countries should increase defence spendings. Recently, you spoke at the German Association in Luxembourg, and you said that we must rethink Europe's defence and security. You also added that the ESM could help. How? Can you be more specific?

Let me first say that we have taken peace for granted in Europe. In the last three years, we finally realised that you cannot have peace at no cost. In fact, we are becoming aware that peace has a price. Greece is very much aware of this, as one of the countries that has spent more on defence than other European countries. Your expenditures are already above 2% of Gross Domestic Product (GDP). But in many countries, we have not taken that sufficiently seriously, because we trusted our American ally, who has been our main protector for three generations.

I think this calls for a European response, European cooperation. A common European defence is something that will take years and months to be achieved.

Let me answer your question on what the ESM can do. First, - and that is what is triggering our reflection - that when you have a war and a threat that is so important, like the one of Russia today, it can cause financial instability. And if financial stability is at stake, well, the ESM has to reflect on what it could do.

We have an instrument, a precautionary credit line, which we had proposed on the occasion of the Covid crisis. Countries could access such a credit line and use the funds they borrow from the ESM for defence expenditures.

That is what the ESM could do, with an instrument it already has in its toolkit. This is, let us say, a response that is available.

Are you thinking about making some changes to this credit line, for it to be more attractive for member states? Given the fact that no member state used the pandemic crisis support during the Covid crisis.

Yes, you are right. First, at the time, interest rates were very low. Second, we had a very generous monetary policy. And third, the European Union decided something that had never been done before, the Next Generation EU programme. So, with all these measures and a few others, it was not necessary to use our instrument. So, technically speaking, [a similar instrument] would be available.

Let me also remind viewers that the ESM has an existing lending capacity, of more than €400 billion. This is a lot of money, and that also illustrates the expression "whatever-it-takes".

We saw debt increase in all member states, if I am not wrong, during the pandemic. And now we are expecting it to increase again because of defence spending. Are you worried about debt sustainability, especially for those countries that have high debt?

I attended the Eurogroup meeting last Monday and the dinner thereafter, where we discussed what the EU can do in terms of freeing some space in member states' budgets Countries that have high deficits or high debt compared to their gross domestic product say: "we don't have a lot of room for manoeuvre to push up expenditures".

The answer that is on the table and that the [European] Commission proposed is first to provide €150 billion [in loans]. And second, to put into place what is called an "escape clause", which is an exception to the Stability and Growth Pact rules.

That gives, I would say, "room of manoeuvre". But, for markets, debt is always debt. It might not count for the Stability and Growth Path and would allow countries to escape the excessive deficit procedure, but it is still debt. So, countries have to save money in other places, change priorities.

And when you think of it, defence and security is an absolute priority in the medium and long term - everybody agrees that sustainability is key. In the short term, we may need to have these exceptions I mentioned. But that is also why I suggested that we need a common approach by having the ESM come into play.

Do you worry about European economies’ growth because of tariffs from the United States? And what about inflation?

It is clear that we are entering a new phase in world trade. In the last 10 years there have been moments of doubt about globalisation. But we are now entering a phase of obstacles to trade - and that is not good, because it is a lose-lose situation for both sides. And what we have been witnessing in the last days and weeks is the escalation of this. Measures, countermeasures. For Europe, this is obviously bad news.

The European Union is a world champion in trade. If we look at external trade compared to our global GDP, it represents 60% of our wealth. If you look at the same number for China, it is 35%, and for the United States, 25%. We are far more open than any other area of the world. So, if there is an escalation in tariffs, it will punish Europe more.

The [European] Commission, which has exclusive competence in this field, and this is also the opinion of the member states, believes Europe cannot just accept penalties, higher tariffs, and do nothing. It is a very complicated situation.

The result will be higher inflation, because if you add tariffs, prices go up. It is a lose-lose situation. But not only for countries, it is a lose-lose situation for the consumer because purchasing power goes down. And if purchasing power goes down, it is a vicious cycle impacting growth. That is bad news for the whole planet.

Switching to the Greek economy. How do you assess the performance of the Greek economy and what are your concerns? How could it shield itself from geopolitical risks?

The Greek economy has performed very well in the last years. And in particular after Covid, growth has constantly been above 2%, while the EU average has been around 1%, that is double the rate. I would like to congratulate the Greek ministers, but also the companies that have become more agile and more effective.

The reforms started in the last 10 years are now bearing fruit. I know that some of these reforms came at a very high social cost. The ESM is very much aware of that. But, on the other hand, it is good to see that they have borne fruit. And in fact, we have seen that in the other countries for which the ESM provided aid - like Portugal, Spain, and Cyprus - the growth rate in these countries is higher than the average of the European Union.

Debt compared to the gross domestic product of Greece has constantly been declining, with the exception of the Covid crisis. Debt to GDP has reduced by 25% in 6 years, which is remarkable. I believe no other country has had such a spectacular result. And the primary surplus is also high.

Unemployment has also declined spectacularly. It used to be above 20%, and in 10 years, it has more than halved, standing below 10%. That is very encouraging.

But there is still potential for improvement. The rate of young workers and women in the economy in Greece is still lower than the European Union average. Productivity in Greece is still lower, which hampers exports. The more the economy grows, the more exports you have, and the more you will be able to reduce your debt or have additional room of manoeuvre for defence expenditures.

You referred to the Greek debt. We know that Greece is planning to proceed with another early repayment for the GLF loans, around €5.3 billion within the year. Do you still support the Greek authorities on this effort and under which conditions? This amount is planned to be allocated for instalments expiring in the period 2023 to 2041. Do you think that such a move will contribute to increase the confidence of investors?

The answer is yes. We need to have the support of the ESM's member states, but, as Managing Director, I will support that demand. I cannot decide it alone, but I will advocate for it. I do not see any reason why member states would object because this is a sign that the Greek economy is doing well, that the financial situation is improving, and that will be rewarded by rating agencies. Greece has now investment grade again. This is a great achievement, will attract foreign investors and will strengthen the position of this wonderful country.

It is very difficult to read the future, even for Pythia in Delphi. We live in very uncertain days. Geopolitical risks and the escalation of trade barriers are really slowing down growth. Greece, like all the other EU countries, should look at the Recovery and Resilience Fund, the RRF, as a great opportunity because the funds are half grants and half loans. It gives room of manoeuvre for the digital and green transitions. Regarding the green transition, Greece could boost public transportation, which is very important for the green agenda. This is an area where Greece wants to do more.

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