

# Pierre Gramegna and Yana Djoneva interviewed by NOVA TV (Bulgaria)



**Transcript of interview with Pierre Gramegna, ESM Managing Director, and Yana Djoneva, ESM Chief Operating Officer**

**NOVA TV (Bulgaria)**

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**Interviewer: Neli Todorova**

**NOVA TV: How exactly does the ESM work? We have so many fears here in Bulgaria that we are going to have to pay to save countries that are not financially stable.**

Pierre Gramegna: *Dobar den.* It's a pleasure to be back in your beautiful and welcoming country that I visited in 2018 when Bulgaria had the presidency of the

European Union. Bulgaria has a long experience in the European Union and is well-recognised.

Now, you are reaching the important stage of joining the euro area, starting in January 2026. And with that comes also the opportunity to join the European Stability Mechanism (ESM), which is the lender of last resort of the euro area. Lender of last resort means that when you cannot refinance your debt, when you cannot go to the markets to finance your debt, then you have no other possibility to finance your country than to go to the ESM, which is like the European version of the International Monetary Fund. Bulgaria will join the ESM after ratifying the ESM Treaty, and will then be around the table and have its own voice.

Our most important decisions are taken by unanimity, by consensus. So, Bulgaria will have a very strong say, like all the other 20 countries in the euro-area. Now, how do we function? We have paid-in capital; this means that countries pay into the ESM, currently at the total amount of €81 billion. And this high paid-in capital ensures that the ESM can lend up to €500 billion at very low rates because we have an AAA rating. But when we support countries, we do not use our paid-in capital. We use bonds that we issue on markets, and the funds that are raised are passed on to the countries that we support. It is a very modern way of supporting countries when necessary.

**What would you say to those Bulgarians who are concerned, who believe that we are going to have to spend more than we can afford to save somebody who is not financially stable, who is not operating like us? Because we are talking about financial stability, keeping a sound budget.**

Pierre Gramegna: This is a very valid question. Now, that I have explained a little bit how the ESM works, let me again stress: the ESM is a mechanism of solidarity, but that solidarity doesn't come for free. If a country applies to the ESM because it has financial issues, it has to carry out structural reforms in order to get the loans. The loans do not come from the member countries. They come from the bonds we issue on the markets, and the beneficiary member state must repay the loans.

We have experience in that. In the last decade, five countries received assistance from the ESM and EFSF, and they are all repaying their debt. But it's not only that. They have done structural reforms, and today those countries are performing better than other countries thanks to that.

## **They have learned their lessons.**

Pierre Gramegna: They have learned their lessons, and it pays off. These countries are now the good students. Those who were the not-so-good students have become the good students. I can reassure Bulgarian people that the contribution that the country will pay into the €81 billion paid-in capital is well-invested money. It is not spent money; it is invested money, and the 1.2% [of the ESM's paid-in capital] that Bulgaria will pay is there to stay.

## **Is it clear how much we Bulgaria should contribute to the ESM? And how is it determined?**

Yana Djoneva: The formula by which Bulgaria's contribution to the capital of the European Stability Mechanism is calculated is the same formula that is used for your contribution to the capital of the European Central Bank. It depends on the size of the population on the one hand, and on the other hand on the country's gross domestic product. It represents the size of the country. Bulgaria will contribute €992 million to the ESM's paid-in capital. This represents 1.2% of the total paid-in capital, but I want to make a few very important clarifications.

The first is that the contribution will be paid within 12 years, that is, the payments will be staggered. Not all at once. In the first five years, Bulgaria will pay €120 million per year, and in 2038, when the 12-year temporary correction period ends, it will pay the remaining amount, and the total paid-in capital will reach €992 million.

**Do I understand correctly that in practice, the ESM is something like the insurance that I pay for my car, civil liability insurance? So far, it hasn't happened to me, and hopefully it won't, that some damage may occur. But I have a partner, I have someone who, if something happens, will cover those expenses if something happens.**

Yana Djoneva: Yes, of course. I think that's a good comparison. The ESM can indeed be viewed as an insurance mechanism for the countries in the euro area. Our mechanism guarantees the country's financial stability against a very wide potential range of risks that could have a significant negative effect on Bulgaria. As I already mentioned, some of these risks may be internal, related to the country's specific policies, but we shouldn't exclude the risk from external shocks, as it happened during the pandemic. And in the current situation of geopolitical uncertainty, it's better to be insured than not to know what our protection is, in case these adverse

circumstances really occur.

**Mr Gramegna, are you sure when you're lending money to countries that need it, that the structural reforms and the efforts will be done so the country will get out of the problem healthier financially, that they will spend the money properly?**

Pierre Gramegna: The answer is a full “yes”. But let me explain why it is the case. Maybe it's important to remember historically how all this started when ESM was set up. There were a few countries, and also large ones, which were as worried as you are to make sure that if we lend money to weak countries, we get our money back. So, the whole setup is such that you only get support upon conditionality, upon committing as a recipient country, committing to deliver on reforms. What do we do? We negotiate a programme with the country, similar to what the IMF is doing.

**Finally, how would you address those fears of Bulgarians that the euro will increase inflation, as that would be a huge problem.**

Pierre Gramegna: I think we have had a lot of experience since the launch of the euro in 1999. There was a fear that it would spur inflation. It happened, but to a very minimal extent. The last example we had was with Croatia two years ago, where prices went up 0.2 to 0.4% just for a short period of time. And then things completely normalised. In fact, being part of the euro area ensures low inflation. This is the success story of the euro area: you have a framework, and you make sure that inflation stays low. The European Central Bank is part of this framework – its goal is to keep inflation around 2%. So, let's not mix up a very short-term flame that might appear with the general goal.

Last but not least, the government has recognised this risk from the beginning and is monitoring the situation. I had the pleasure to meet the Prime Minister today and yesterday evening. And I can really assure you that I got the impression that the government is aware of this potential small risk and wants to mitigate it.

Yana Djoneva: the risks of price increases and inflation are very short-term compared to the truly long-term, very significant benefits of adopting the euro. And I think today's conference confirmed these observations from many institutions: from the President of the European Central Bank, the Managing Director of the International Monetary Fund, Commissioner Dombrovskis. And this is our position as the ESM.

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