

Pierre Gramegna interviewed by Politis (Cyprus)



Interview with Pierre Gramegna, ESM Managing Director

Published in Politis (Cyprus)

23 May 2026

Interviewer: Yiannis Seitanidis

Original language: English

Politis: How do you assess the impact of the ongoing conflict in the Middle East on the economic outlook of the Eurozone, particularly in terms of energy prices, inflation, and investor confidence?

Pierre Gramegna: The conflict in the Middle East is clearly affecting the euro area, given its exposure to external shocks, mainly through higher energy prices and a more uncertain environment affecting spending and investment.

There has been a sharp increase in oil and gas prices, reflecting renewed supply concerns, with global oil stocks being depleted at record pace.

This is, quite naturally, weighing on both the economy and the outlook. Economic growth for the euro area is expected to slow to 0.9%, according to the European Commission's Spring Forecast.

Inflation is also higher in the near term. Investors expect it to reach 4% by year-end, although over time it is still expected to settle near the medium-term ECB objective of 2%. All this is leading to greater caution among investors, after a period of relative optimism.

That said, the euro area faces this energy shock more prepared than in the past. But the key question is how long the conflict lasts and how persistent the energy effects will be.

Policy response needs to remain well calibrated. It is essential to support the most vulnerable, but also to act with discipline. Measures should be temporary, targeted and tailored, so that public finances remain on a sound footing and confidence is maintained.

Do you see rising geopolitical tensions translating into a prolonged period of uncertainty for smaller, open economies like Cyprus?

Smaller economies are more exposed to external shocks, whether through trade, energy imports, tourism, or financial flows.

In Cyprus, proximity to the conflict and reliance on oil could amplify the effects. If tensions persist or escalate, two channels stand out: energy prices, feeding into

costs and inflation; and tourism, where travel disruptions can quickly weigh on activity.

Even so, it is worth noting that uncertainty does not necessarily mean vulnerability. Being part of the euro area provides countries like Cyprus with a strong and protective framework. It brings stability, credibility, and access to a well-established financial safety net.

Are you worried about the possibility of stagflation - a combination of low growth and high inflation - re-emerging in the euro area? If such a scenario materializes, how could it affect the post-programme path of countries that have previously received support from the European Stability Mechanism?

What we are seeing today is a combination of higher inflation, driven mainly by energy prices, and weaker growth prospects. But expectations still point to inflation coming down over time, even if the path may be slower. Economic activity is not expected to stagnate or become negative.

Hence, the EU is not in stagflation, as highlighted by the Commission's Spring forecast. We are rather in a phase where the outlook has become more complex and less predictable. The key point is that both growth and inflation are being shaped by external shocks, in particular energy and geopolitics.

So, the message of the ESM is one of vigilance. In a more challenging and fragmented global order, governments should keep prudent policies and a continued focus on stability.

Do you believe that countries like Cyprus and others that exited adjustment programmes are sufficiently resilient today to withstand such a dual shock?

Yes, countries that received ESM and EFSF assistance are today much more resilient than in the past, and this is clearly reflected in the data. Cyprus, in particular, has done well in the last years, and its growth rate has outperformed the euro area average.

Cyprus is therefore entering this period from a stronger position, but the present geopolitical turmoil must not be underestimated.

Cyprus, for example, made an impressive journey during and after its programme. Public finances are stronger, imbalances have been reduced, and banks are better capitalised.

It is important to preserve past achievements, not least in improving the resilience of the financial sector. The country should not lose sight of the importance of a stable and efficient domestic environment when challenges rise.

How do you evaluate the current state of the Cypriot economy in terms of fiscal discipline, debt sustainability, and exposure to external risks?

Cyprus is in a strong fiscal position, exemplified by budget surpluses, amongst the highest in the European Union: 4.1% of GDP in 2024 and 3.4% of GDP in 2025. The public debt ratio is rapidly declining, dropping below 60% of GDP, from the 2020 peak of 113.6% to 55% last year.

The government has responded to the energy shock with policy measures, but these are not expected to weigh on the budget more than the support provided during the previous energy crisis triggered by the war in Ukraine.

Of course, the environment remains demanding, and policy choices require careful prioritisation.

If Cyprus stays the course with prudent policies, the overall direction will remain favourable: debt dynamics should continue to improve, and the debt ratio should remain on a downward path.

Are there specific vulnerabilities in Cyprus that policymakers should prioritise in light of global instability?

High energy prices for both firms and households are a long-standing challenge for the Cypriot economy. This reflects the country's fossil fuel dependence, as well as its reliance on an energy infrastructure that still needs modernisation.

Besides the direct effects on households and businesses, it also has broader implications: for competitiveness, for investment decisions, and for growth more generally.

Looking ahead, this challenge may become more pronounced. As the energy-intensive digital services sector is expanding, the demand for energy will likely increase in the future. Climate pressures will only add to this.

The priority should be to continue to reduce energy vulnerability, by strengthening and modernising the energy system as well as increasing the share of renewables used for energy production, while at the same time safeguarding the stability and credibility that Cyprus has worked hard to build through past reforms.

Looking at Greece, do you believe it can continue reducing its debt-to-GDP ratio after 2032, when the period of concessional debt servicing terms comes to an end?

Greece has made very notable progress in recent years. Public debt has fallen to 146.1% of GDP in 2025, from a peak of more than 200% in 2020, alongside a clear strengthening of public finances.

Even after 2032, when the period of deferred EFSF interest comes to an end, Greece will still benefit from a debt structure with very long maturities and low effective interest costs.

Around 70% of Greece's debt is held by the official sector and comes with very long maturities (with EFSF maturities running to 2070 and ESM maturities to 2060), and a low effective interest rate (below 2%), thanks in part to hedging through interest rate swaps. This means financing pressures tend to build gradually, not abruptly.

So continued debt reduction remains achievable if fiscal discipline and growth-supporting reforms stay on course.

How do you see the future of the European Stability Mechanism? Should the ESM's toolkit be expanded to address new types of crises, such as geopolitical or energy-related shocks?

The ESM has a clear mandate: to safeguard financial stability in the euro area. That mandate remains fully valid, also in today's more complex world.

At the same time, the nature of risks is evolving. We are dealing with shocks that are increasingly global in nature, often linked to geopolitics, energy or technology, and that can affect economies in a less predictable way.

In that context, I would not say the ESM needs a completely new toolkit, but rather that we should continue to make full and effective use of the instruments we already have.

The ESM offers a wide range of support options, which can be adapted to different situations.

Do you envision the ESM playing a more active role in crisis prevention rather than crisis resolution?

As I have said before, we should not only think of the ESM as an institution that intervenes once a crisis has already materialised. We should also look at the factors that can trigger a crisis and be ready to act early.

This is precisely where precautionary instruments come in. The ESM already has tools that can help a country whose economy is sound before a situation escalates, helping to stabilise the situation and avoid a deeper crisis.

The ESM is there to assist its Member States whenever financial stability is at risk. This could be due to an external shock - be it geopolitical, climate related or financial.

At the same time, the ESM has developed a robust framework to detect and monitor risks, and this is key to ensure crisis preparedness. There is a clear connection between preparedness and prevention.

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