Jörg Asmussen: Interview in *Il Sole 24 Ore*

Interview with Mr Jörg Asmussen, Member of the Executive Board of the European Central Bank, in *Il Sole 24 Ore*, conducted by Mr Alessandro Merli and published on 25 October 2013.

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Why did you choose Italy for your MBA? Not an obvious choice for a German student.

And a very Northern German! I was born just two miles from the Danish border. It was part logic, part gut feeling. The logic was to learn a new language, besides English and French. I thought about going to Spain or Italy. And then the gut feeling said: go to Italy. The emotional relationship between the two countries goes back centuries: to Goethe's trip to Italy on one side; on the other there is Italy's admiration for how Germany functions.

What did you learn in your MBA that was useful in your future career, as you went into public service, in a different direction from the typical MBA?

The MBA was very useful, even if one worked in the public sector: you learnt management tools, about project management, personnel issues, marketing. What I really learnt was to value diversity, to deal with cultural diversity. In my MBA class there were people from almost 30 countries. And I learnt the value of cooperation and work in a team: you work on projects and case studies, solve problems, and in the end you only get one mark, as a team. I also learnt to live abroad. From the beginning people in Italy were very helpful, even when I only knew three words in Italian, and they encouraged me to speak Italian. We speak Italian, from time to time, with Mario Draghi.

The structure of the economy in Germany and Italy has similarities, in terms of the weight of manufacturing, the export orientation, and yet Germany is doing well and Italy is doing badly. Why?

There are clear similarities: the importance of manufacturing (although this has increased in Germany in recent years while in Italy it has decreased), the great importance of small and medium-sized enterprises. The key difference when it comes to SMEs, which may explain some of Italy's current problems, is that on average Italian manufacturing SMEs are much smaller than in Germany. It makes you more flexible, but it also makes it more difficult to finance innovation and exploit export markets. For sure, the fiscal situation is very different, and so are developments in competitiveness. One piece of data is really striking: between 1999 and 2012 nominal unit labour costs in Italy increased by a bit more than 36%, in Germany by less than 10%.

How do you explain that and how should it be addressed?

No single explanation. The relatively smaller size of firms, as I said, is one: smaller firms have difficulties in exploiting new markets, such as those in South-East Asia. But there are a number of reasons: adverse price and cost developments; demographics, which are worse than in Germany; lack of growth in total factor productivity. And there is an issue with the education system. Since 1999 Italy has lost 30% of its export market share, while Germany has gained 20%. On the fiscal side, a lot has been achieved, especially under the Monti government, which should not be unravelled. He also started a labour market reform. But the focus in Italy now should be on structural reforms: the need to foster innovation and improve competitiveness. That is the agenda that lies ahead of the country. But, having lived there for two years, even if it was 20 years ago, I am optimistic this can be done. I would not be as pessimistic as many analysts are.

The political system being dysfunctional is often cited as the main hindrance, leading to instability and uncertainty.

A The European Central Bank is totally neutral politically. If one looks at the creativity here in Italy, there is high potential for finding solutions. You have real entrepreneurship. But if you look at the Doing Business report of the World Bank, which looks at how easy it is to conduct a business, Italy is 73rd. It's one of the best global indicators. Greece is climbing, even if from a very low ranking, and non-European countries are improving.

Italian entrepreneurs lament the lack and the cost of credit, especially for SMEs. President Draghi has said many times he that he is aware of the problem. What can the ECB do about it?

There are a number of reasons why banks don't lend to companies. When the business cycle is weak, companies demand less credit. But there are also constraints on credit supply. What will be very important is the coming major exercise led by the ECB, the comprehensive assessment of banks – the asset quality review and the stress test. Europe is lagging behind in balance sheet reform after the crisis, compared with the United States, and in my view lending to the real economy will only return to the levels at which we want to see it if we have clean bank balance sheets. If you have banks sitting on a substantial amount of non-performing loans or suffering from a lack of capital, they will not lend. This element of the banking union is key. The ECB will do this before assuming banking supervision and it is the precondition for lending to revive.

Is this, do you think, your most important contribution, rather than lowering interest rates or providing more liquidity through another longer-term refinancing operation?

In general terms there are three reasons banks don't lend: a lack of liquidity – and that is not the case on average in the euro area today, with the banks repaying the two three-year LTROs; a lack of capital, which cannot be addressed by the ECB but is a matter for bank shareholders and, if that is not possible, fiscal backstops; and heightened risk aversion. We provide liquidity as needed and will do the comprehensive exercise.

There are very different perceptions in Italy and your own country about the respective other country and about what the ECB should do.

I now look at this question as a European with a German passport. This is what makes our job interesting and difficult at the same time: the European perspective. I travel a lot around Germany and talk to people and hear that we at the ECB are doing too much, exceeding our mandate. Someone even took us to the Constitutional Court on that. In Italy, people ask: why don't you do more? I take note of both perceptions, but we do what is needed to ensure price stability in the euro area as a whole. We are the central bank to all 17 countries.

Lack of growth remains a huge issue. Where will growth come from in the euro area?

In the second quarter the euro area came out of recession after six quarters. That is good news, but it's very, very gradual, fragile, uneven and with downside risks. The major source of future growth is growth-enhancing structural reforms. We always look a bit inward: what is Germany doing, versus Italy, versus France? But the key question is: how can we Europeans compete globally in the economy of the 21st century, where we have new competitors, which are much stronger than 10 or 20 years ago? We need to cooperate much more, deepen the Internal Market, join forces with cross-border mergers – even in banking, where they are very rare (notwithstanding UniCredit-HVB). The aim in the end is to create jobs. Unemployment at this level is unacceptable. One in four young people in Europe are out of a job. As structural reforms take time, we need to resort to active labour market policies, like vocational training. Otherwise, we risk a lost generation.

The little growth there is comes from exports. German and Italian companies meeting in Bolzano this week raised the question of the strength of the euro.

Our answer does not change. We don't have an explicit exchange rate target. The exchange rate is factored into our inflation and growth forecasts.

But is it too high, is it overvalued, does it worry you?

A In nominal terms and in real effective terms, which is more important, it is within the band we have seen for the last ten years. I don't have any specific worry on the exchange rate. It only concerns me as it factors into our inflation forecast.

You are directly involved in the negotiations on the banking union. Single supervision was agreed, but on single resolution there are still wide differences. Time is running short, because of the end of the legislative term of the European Parliament in the middle of next year and the uncertainty in Germany about the next government coalition, which will delay decisions.

We want a banking union with all its elements, which includes a single resolution mechanism with its three components: a European resolution regime, a European resolution fund and a European resolution authority. And we want it in place close to the time single supervision starts in November next year. It is ambitious but doable. The European Parliament will stop working in April. That means finishing the law-making beforehand. That is why, from a European perspective, it so important that a major Member State will form a new government soon. Then we can have a European Council position that will pave the way for legislation. This is in my view the biggest task ahead of us in the next few months. It is of the utmost importance, because it will provide a key contribution to reducing the fragmentation in the euro area.

The German government has said that Treaty revision is needed for a single resolution authority and it doesn't agree on the use of the European Stability Mechanism for the recapitalisation of banks.

We want a joint regime, a joint fund and a joint agency. The ECB lawyers agree with the legal basis of the European Commission proposal for a European resolution regime. This is disputed by the German government and will have to be resolved. It is related to the question of who the resolution agency is: it cannot be and should not be the ECB, as it is the supervisor. The most difficult question, because it is about money, is the resolution fund. We should have a joint fund, financed by a levy on banks. But it will take time to build up, say ten years. In the meantime, there should be a fiscal backstop. And it could be the ESM. Compare this with the United States, where the resolution agency is the Federal Deposit Insurance Corporation, which has a permanent credit line at the Treasury. The ESM could be the fiscal backstop to the European resolution agency. This would require a revision of the ESM Treaty; it is a lower hurdle than changing the European Treaty. I think it is feasible before the European Parliament is out.

You may soon be on the other side of the negotiating table, as finance minister in a "grand coalition".

My term at the ECB ends in 2019. My intention is to fulfil that term.