

Vítor Constâncio: Interview with Euronews

Interview with Mr Vítor Constâncio, Vice-President of the European Central Bank, and Euronews, conducted by Ms Efthymia Koutsokosta on 15 September and published on 20 September 2017.

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After almost a decade of crisis and uncertainty in the Eurozone, optimism is on the rise. But still unemployment is high and divergences among member states are always there. What should be done so that the euro delivers on its promise to increase the wealth of the societies? To discuss this I am joined here by the Vice-President of the European Central Bank Mr Vítor Constancio. Mr Constancio: welcome to Global Conversation.

So, do you share this optimism, is it justified or there are risks that can really revive the crisis once again?

It's important to underline that growth has converged, meaning that the rates of growth of all countries are now very close together and that's the best situation from that point of view since the beginning of the monetary union.

But is the Eurozone still attractive for the member states? And I am saying that because after the crisis there are a lot of people saying that this currency is not designed for all, but for only a few strong member states.

We were initially eleven countries, then 12 in 2001 and then in 2007, 2011, 2014, 2015 other countries joined which shows that during the crisis there were several countries still very much attracted to the idea of the stability and the openness that the monetary union offers to all countries.

But we see some countries such as Hungary or Poland not willing to join.

I won't discuss the position of any particular country or government, it's their view but there is a presumption in the treaty – and that's what Mr Juncker highlighted in his speech – there is a presumption in the treaty that all member countries are supposed eventually to join except countries that are still members and have an opting out clause like the UK which is now leaving the EU altogether and Denmark. All the others, according to the treaty, are presumed to join one day.

There are also other proposals on the table concerning for example a minister, a finance minister of the EU or the Eurozone or a Eurozone budget. Why is a minister needed right now in the EU right now?

The idea of a finance minister is more recent and presumably is connected with the introduction of such functions at the central level of the euro area in order to have someone in charge and responsible for managing that additional capacity and the stabilization function in the monetary union.

Does this mean that the member states give some powers to this minister?

Yes of course. But already the stability and growth pact implies with all its reforms over the years, implies a lot of coordination and rules that have to be complied by the countries. That sort of sharing of sovereignty in some aspects of fiscal policy is already there and what would be now presumably at stake is the creation of some more instruments to help stabilize potential recessionary periods in the euro area in the future.

But let me tell you about EU growth. Ok, things are going better, maybe the economy

goes better, maybe some wages are going up, maybe unemployment is falling but not everywhere. There are for example the countries of the South still struggling to survive with crisis, to create growth: Italy, Portugal, Greece. And we see other countries, the strongest ones which are in a better shape. How you tackle this?

Well, in the first place, all these countries that you mentioned and also Spain are growing and in the case of Spain and Portugal they are growing above the average of the euro area right now.

But people don't feel that.

Not yet. But in the first place it's being felt in the reduction of unemployment also in those countries. Growth has returned to all countries. And so, the degree of divergence has stopped, which has been ongoing since the crisis. And of course we need to strengthen these movements, and that's why at the European level we need new initiatives to deepen and strengthen the functioning of the monetary union.

What about Italy? Is Italy the sick child of the euro area? Because of course Italy is a very particular case, with a huge exposure to non-performing loans and a banking system quite vulnerable.

The main consequence of having too high non-performing loans is on profits because all those loans are not providing the revenue, so the NPL question is very important to indeed restore conditions of improved profitability so that they can then offer new credits to support the recovery.

But despite the recovery of the eurozone, all these positive messages, we have many challenges ahead. One of this is brexit. What could be the biggest risk of this negotiation, of this divorce?

In economic terms, one has to consider the size of the UK economy and the size of the EU to see that the consequences and the disruption would be much more significant for the smaller part in that negotiation than for the EU as a whole. I don't expect and no one is expecting that a brexit will mean that there would be no trade between the two parts. That won't happen. There will not be a total disappearance of trade.

Mr Constancio, you are in this position since 2010. So, you experienced the hardest times of the Eurozone. What was your personal most difficult moment?

Well, it was the start of the phase of the crisis when Greece came to a situation where the revelation about the budget deficit created a situation of non-access to the financial markets. That was in 2010.

Could you say that the end was close?

Well, I wouldn't say that especially with hindsight but during those moments, indeed it was the first big shock of the crisis. Then we had many other vicissitudes later on, some related with Greece, some related with other countries, 2015 was also a difficult moment but the beginning and the big shock and the surprise of what could imply was indeed the more difficult moment.

Mr Constancio many thanks for being with us.