

Yves Mersch: Interview in *La Vanguardia*

Interview with Mr Yves Mersch, Member of the Executive Board of the European Central Bank, in *La Vanguardia*, conducted by Ms Beatriz Navarro and published on 7 May 2015.

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Tsipras' reluctance to sign has surprised many. Is an agreement with Greece possible?

Few times have I seen Europe so united, with the exception of one country, on the necessity to abide by the rules. Those countries would not like to see all the achievements of the past, the efforts made, come to nought now that they are beginning to see the benefits.

Isn't Tsipras right in calling for a change in policy? EU and IMF reports concede that the impact of the bailout on unemployment, GDP, etc. was greater than expected.

In some sectors of the Greek economy the magnitude of the effort seems larger than elsewhere. However, in the Baltic States the adjustment has been, at the very least, the same as in Greece. But the more you stray from the correct path (and this country strayed the furthest), the harder it is to return. If the pressure had not come from the institutions, markets would have asserted even more pressure on countries to adjust. And if you can't get financing yourself and you rely on the money of taxpayers in other countries, you need to show that your citizens are also playing their part. That reality has been easier to accept in some countries than in others.

Is Tsipras the good cop and Varoufakis the bad cop? What do you make of the changes in the negotiating team?

I only know that both were elected on the same electoral platform. It's a matter of forms and substance, and sometimes the substance is more readily accepted if the forms are improved.

Would it be a good idea, as being mooted by Tsipras, to hold a referendum on the bailout measures?

As a central banker, it's not for me to give advice to a prime minister on how to manage his democracy.

Papandreou tried and was prevented ... Looking back, would it have helped in 2011?

There are also those who say that, had we looked closer at the statistics a number of years back, we would have saved ourselves all these discussions ... How far back in time do you go? The best way of sharing sovereignty among European countries is by sticking to the rules.

In 2011, when asked about the consequences of a "Grexit", you said it would be "chaos". Do you still believe this to be the case?

At this moment I don't wish to engage in speculations. The clock has ticked forward but perhaps we can still achieve a positive outcome.

Many people believe that the euro area could now withstand such a shock.

My main working hypothesis is not the worst outcome.

Compromise solutions have been mentioned, such as issuing a parallel currency, IOUs ...

All these measures can be found in the non-standard toolbox that any government might consider when it runs out of other options. But they all come at a high price. Whether they are needed or not is something that only the Greek Government can decide.

Would capital controls in Greece help to stabilise the situation?

That is one of the many measures I was referring to. The Treaty says that there is free movement of capital, but exceptional measures can be authorised. In Cyprus these measures were considered necessary, but it's difficult to speak generally. In an extraordinary situation, each country has to call on exceptional measures as the case requires. Talking about them beforehand could have negative effects on the markets.

Can Greece default within the euro area?

I don't want to theorise concerning the destiny of Greece. If you take a look at other examples, there have been defaults in the United States and other monetary unions, with no political consequences. What matters is European countries' perception of political cohesion and their willingness to remain together. The more the euro area is seen as a mere cooperation between sovereign states, the less you can imagine it making the extra effort necessary to remain united. And the more you believe the euro is more than a single market, the more you will believe that we are willing to defend it with all possible means. The political will to save the euro has been severely underestimated by the markets.

The ECB holds the key to the Greek crisis. If it withdrew the emergency liquidity assistance from the country's banking sector, the situation would totally change.

It's untrue that we are the main player in the crisis. Moreover, emergency liquidity assistance (ELA) is a national competence subject to a non-objection by the Governing Council with a two-thirds majority. Countries are not a door with a single key. There are several keys and the ECB has only one of them, a very small one, and it is always used in accordance with the house rules, which hang on the door. When you go in, you know what is expected of you.

The quantitative easing programme has had an immediate effect on bonds, shares ... Some fear that a bubble is forming, that risks are not being assessed correctly when granting loans ...

There is an element of truth about everything that is said regarding a measure which is as unconventional as this one. But sometimes you have to take risks and use such measures, which may have unfortunate consequences. There are, however, tools to address those (banking supervision, resolution, taxes ...) and the European architecture is also being strengthened further. QE has been an appropriate response to an extraordinarily risky situation that we had not seen for several generations.

How do you see the situation in Spain? Its growth forecasts are among the highest in the EU, but does it serve as an example when levels of unemployment and indebtedness are so high?

There are many models: Ireland is one, and Spain too... Employment is a lagging indicator. Moreover, unemployment figures, especially youth unemployment, have already fallen to levels below those at the time that the bank bailout was requested. Indeed, they are above 2008 levels, but I can still recall the levels of 20 years ago, so it's all relative. They have always been higher than in the rest of the EU, even during the boom years. But I believe the mentality in Spain has changed. The ability to acknowledge the reality and to adapt to it shows that it is a mature democracy. That is the type of mortar we need for a monetary union.

Spain feels particularly underrepresented in the EU since you took, in 2012, the rotating seat on the ECB's Executive Board, which it had occupied since the institution's creation. Do you think that, given its demographic and economic weight, the situation should be corrected?

Passports should play a minor role in European representation, especially in supranational institutions like the ECB. Quotas are inappropriate. When we enter the ECB's Governing Council meeting room, we leave our passports in the cloakroom. The only conditions laid down by the Treaty are competence and reputation. That's quite different however in inter-governmental institutions where appointments are the result of allocation.

De Guindos in the Eurogroup?

The ECB does not vote. Where I do agree is that making the presidency of the Eurogroup a permanent position could strengthen the institutional architecture of the euro area.

How would the hypothetical independence of Catalonia affect its relationship with the ECB?

At the ECB we act according to regulations, and the treaties. We would adhere firmly to the legal provisions and we would not do anything that is not legal.

What conditions would need to be met in order to gain a seat at the ECB?

Whether this is political fiction or not, I don't know. But the ECB only acts on the basis of facts, not hypotheses. If the number of countries in the euro area were to increase then we would respect that, but there would be no shortcuts unless they are provided for by the Treaty.

The European Commission has launched an investigation into the use of deferred tax assets (DTA) in the banking sector in Spain and various other countries. The ECB was very critical about DTAs when it had to be evaluated during the banking stress tests.

There are four countries that resorted to using these measures widely and the legislation that they adopted varies from one country to the next. I believe that we must look at each case separately and in context. Personally I dislike the idea of resorting to attempts to create the impression that a balance sheet's loss absorption capacity is greater than it is in reality. But in certain cases I believe that some tax claims can be of a higher value and more liquid than in others. In other countries, doubts about the situation in the public sector may be greater and the question arises as to whether or not tax claims are actually liquid or have the capacity to absorb losses in real time. Because if you want them to be accepted as liquid assets, they must be immediately available. And call me old-fashioned, but I think that hard cash is the best form of capital.

Where does Spain sit on the spectrum that you have described?

The European Commission will comment on that from the perspective of public aid in its evaluation. In our Comprehensive Assessment last year we were not very enthusiastic about it (DTAs) but in the end we accepted it on legal grounds. But the most important thing for me is to have a level playing field and, as such, any legal clarification that arises as a result of the European Commission's assessment will be welcome.

The Spanish government states that this was designed in collaboration with the EU institutions, given that we were under the financial assistance programme for banks, and it appears to be rather calm.

That's what I said, we have to look at how things were done, under what circumstances and what its real liquidity is; it will depend on government liquidity, tax revenue etc... And there are very different tax arrangements involved. In some countries there are tax claims, in others there are assets... these are two different "animals". There are things that may have been good in certain situations, but when that situation passes the question is whether or not the instrument should become permanent. It is similar with our unconventional monetary policy measures: when the crisis is over, there will be those that say why not carry on with the measures because buying government bonds is a really good thing... And they would like it to become a permanent instrument, but this would go against our initial intention. The same applies to these instruments that were devised during the crisis and thought of as part of the programme, but were not, in my understanding, designed to be permanent.