

Vítor Constâncio: Interview with Bloomberg TV

Interview with Mr Vítor Constâncio, Vice-President of the European Central Bank, and Bloomberg TV, conducted by Mr Paul Gordon on 17 May 2018.

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I'm here with Vítor Constâncio, a man who has been at the heart of ECB policymaking basically since the birth of the euro almost two decades ago. For the last eight years he's been Vice-President. His term expires this month, but over that period, dating back to the all-too-brief period of calm between two recessions, he's been through the unfortunate rate hikes of 2011, quantitative easing, negative interest rates and the rescue of the euro area from deflation – or the threat of deflation at the very least. Today, when the Governing Council is almost, but not quite, ready to talk about exiting stimulus, Vice-President Vítor Constâncio is with me today. It's been quite an eight years, and here we are: you're about to go at a critical moment, because the economy is slowing. How worried are you?

Just a slight slowdown so far – which, by the way, was expected. You may recall that the staff projections that were published, after the high growth of last year, already pointed to a certain deceleration. So, what is happening is still within the bounds of the staff projections for the whole year, which nevertheless forecast growth above 2%.

The Deputy Governor of the Finnish central bank, Olli Rehn, who is tipped to, is likely to join the ECB, has been nominated to do so, he says the medium-term outlook is tilted towards the downside. That's not quite the same as the ECB says.

I have not read what he said, but let me remind you: the projections that have been published, they foresee a growth rate for next year around 2% and then 1.7% for 2020. Indeed, on a path of deceleration, because for demographic reasons and other reasons, potential growth is not very high in Europe – by the way, not also in other advanced economies. We have been growing above potential, especially last year, this year also. Of course, as the output gap closes, we are reverting to potential growth.

Are you still comfortable with market expectations, which are roughly for an end to QE – to net asset purchases – this year, then a rate hike the middle of 2019. Does that sound reasonable?

I won't comment on that. It's difficult of course to anticipate what may happen. All central banks are to a degree data-dependent, so we monitor of course what is happening. But what I can tell you is that we generally consider that markets have been reading our reaction function quite well. It's also, I presume – or at least, being biased, I will say it – that it's also because of the way we have communicated. Indeed, that understanding of our reaction function has improved over the years and has been quite good recently.

One of the risks the ECB has always been citing is unwarranted market tightening. There's a couple of risks out there; one at the moment is Italy, of course. We've seen bond spreads expand. Some of the wilder ideas, such as asking the ECB to write off €250 billion of debt, have been dropped. There is still this issue about how you measure debt-to-GDP ratios. But the problem is, bond yields, bond prices have been falling, the spreads have been widening. Does that worry you?

We have to monitor that situation, of course. It's a change from what has been happening recently. The problems of Italy are the same, as known by everyone, particularly in the market, of course. The yields and the spreads had been contained until recently. There is this spike. We

have to see how it will develop. It depends, of course – as always – very much on the policies that will be actually implemented in Italy, as in other member countries.

You're also watching the euro [...] as another issue? The euro's softened quite a bit in recent weeks. In fact, you do get the sense from comments from policymakers that there's not a great deal of concern at the moment about the strength of the euro – which wasn't true a few months ago – or the direction, I should say, of the euro. Is that true?

We were concerned always with excessive volatility in exchange rates, but we don't have a target for the exchange rate, as you know. The volatility in foreign exchange markets, particularly among the advanced economies, has been attributable more to what has happened to the dollar than events linked with other parts of the world. So, that is still the story, and what has happened is that, indeed, we have seen different movements now in the dollar, appreciating also for reasons. Because it's always, markets are very good at doing that, or market analysts, at rationalising what markets are doing. There are, of course, very good narratives explaining why the dollar has been going down and up and now is going up.

So you're reasonably comfortable with where the euro is at the moment?

Yes.

Another risk out there is Iran. This is a slightly tricky one, of course, because Europe now has to deal with the prospect of sanctions on companies that deal with Iran via payments. If it's involving payments, it's going to involve the ECB one way or another. Presumably the ECB takes a view on this situation?

As you know, there have been sanctions already before. They were lifted after the agreement, and we've gone through that period without major consequences, particularly for the central banks. I am not really expecting that whatever happens in that sphere will have a very meaningful impact on what we will do.

There is a big summit next month, of course, of leaders. It's an important one because there's a new European Parliament next year. What's not agreed at this summit next month might not be agreed for quite some time to come, depending on how Parliament changes. You put out some pretty bold proposals for the way the Monetary Union needs to move in a speech today. How confident are you that any of this is really going to happen?

That was not the perspective of my speech. As I explained, I talked as a technocratic adviser, saying what technically would be necessary to really move towards a very solid Monetary Union, working smoothly, and reducing doubts about the solidity of the whole project. I put forward some technical proposals, but I didn't discuss on purpose the political economy feasibility of what I was saying from a technocratic perspective. It's for governments to make their choices, of course. I do think that the vested interest of all countries is to move forward, deepening the Monetary Union, but it's in the hands of the governments.

Yes, somebody else's job, because you're going to move on. Now, eight years in – and just briefly, if you can – if you had to change one thing, if you'd done one thing differently, or the ECB had done one thing differently, in those eight years, what would it be?

Nothing really very meaningful in the end. I made a speech at the beginning of the month where I talked about the past and future of ECB monetary policy. I went through some episodes that were controversial in some of our decisions in the past. With hindsight, I admit that indeed the decisions were not always perfect and I explained why. I also explained that in both the cases I

highlighted in that speech, we very quickly corrected those decisions by changing interest rates in the opposite direction. So, the overall effect of these incidents was in the end not very significant.

Vice-President Constâncio, good luck for whatever comes next. Thank you very much indeed for your time today.