

Luis de Guindos: Interview with Latvian TV

Interview by Mr Luis de Guindos, Vice-President of the European Central Bank, with Latvian TV, conducted by Mr Toms Pastors on 7 January 2019 and broadcast on 9 January 2019 for Latvian TV1 "Pasaules Panorama (World Panorama)".

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The euro as a currency has just entered the age of young adult, if you will. There have been some growing pains especially during the sovereign debt crisis. How would you rate the role we have taken thus far? Did we barely survive these 20 years, or are we in a good position at the moment?

Well, it's obvious that we've had difficulties but if you look backwards, I think that you can realise that the euro has been a very important success. Undoubtedly the euro is the most important element of European integration. It's not only economics or financial issues; it's that this is the real instrument in terms of cooperation. Despite the difficulties, because undoubtedly we had the debt crisis, as you have said, today the euro has delivered financial and economic stability to the euro zone. It is the second most important world currency now in terms of reserves. And we have an inflation rate that's below 2 %, -but close to 2%. Even if you look at the measures we have taken in the last five years, monetary policy has been one of the main drivers of the recovery that we have now in Europe. So, all in all, despite the difficulties and although we still need reforms to be taken in the near future, I think that we can conclude that the euro, the single currency has been a real success.

There was a time when we were actively speaking about the possibility that we might lose one member state and this last year Greece finished the whole programme. Do you feel that at the moment the mechanisms are there to avoid a situation like this; that crisis in one country could lead to a really large problem for the whole euro zone?

I think there is something about the euro that is quite relevant. The euro is a project that you can join in but that is much more difficult to leave. In that regard, I would say that we come from the difficulties over the last ten years making reforms. We created the ESM, we set up the banking union, so we have been acquiring additional instruments to overcome the difficulties. I think that we are much more prepared to face a new crisis despite the fact that there are gaps; gaps that we have to fill.

One of the gaps, if you look at the euro zone as a whole and the member states of the EU, you can see that even countries that are really financially stable are still refusing to do what they signed up to do – to introduce the euro, like in Sweden or Poland. Twenty years is a long time. Why haven't any steps been taken towards introducing the euro in these countries?

Well, I think that you know some countries have joined the euro. Latvia is a very good example. Now you are celebrating your fifth anniversary of joining the euro. The euro is the currency of the European Union, so in that regard I think that is a question of time. I am totally sure that besides the United Kingdom, that unfortunately is leaving the Union, and besides Denmark the rest of the countries will eventually join the euro. I think that in order to do that, we have to complete the financial and institutional architecture of the euro zone.

Do you have any timetables in mind?

No, it's very difficult to put forward a timetable in that area, but I'm fully convinced that as the euro makes progress and time goes by more and more countries will join the euro zone – we have the case of Bulgaria now. And I suppose other countries will rapidly start to apply to join the euro. If

you look at the polls – the polls are very clear – 75% of the population of the euro zone is in favour of the single currency. So we cannot be complacent but I think, and this is quite relevant in the times that we are living now, the euro is the main instrument that we have in terms of political integration, in terms of financial integration and there is a lot of political will behind the single currency, so what I would expect is that more and more countries will eventually join the euro zone.

As you mentioned, this is the time when the UK is leaving the European Union and many are unhappy, including many Brits themselves. But there is also this talk that without the UK, Europe could further develop towards closer integration, towards fiscal union, banking union and so on. Do you feel that this is also a possibility for the rest of the EU to go towards deeper integration?

Well, the first thing that I have to say is that Brexit is something that is detrimental especially to the UK, but also for the rest of the Union. These are the decisions made by the British population, we have nothing to say in that regard. But I think that it's going to be quite negative in terms of economic performance for the UK. The rest of the members of the Union will have to continue cooperating and continue integrating our economies. I think that in that aspect further integration is the correct answer. I repeat again, it's quite unfortunate that the UK, such a big economy, leaves the Union, but this decision is taken by the British people. We regret that decision. I would like to express that we have to continue cooperating with the UK and that I hope that we will have a divorce that will be orderly and that will let us continue operating with the UK. But now the decision has to be taken by the British parliament, so full respect for the decisions taken by the British population and by the British parliament. But I think that we will have to continue our integration process in the euro area.

Given the current political climate in Europe, do you feel that moving towards closer integration is the right step because we see a lot of backlash at this moment both in nationalistic, populist and so on?

Undoubtedly we have seen more populism all over Europe in recent years, but I think that the correct response is to take further steps in terms of integration. There is not an easy fix to the problems of Europe. But I think that the euro indicates that there is a way forward and that we can overcome difficulties together and that the very nationalistic and domestic approaches are not enough in order to do that, but that it's much better to do it together. And in that regard the euro is the main element of coherence and the main element of political integration and financial integration that we have in the EU.

If we take one case in particular – that of Italy – we see that there is this new government that is really pointing the finger against these technocratic institutions, including the ECB, and saying this is not the future, we cannot go on like this. They're the third largest euro zone member, so third most important. So what can you answer to that kind of political sentiment that indeed is rising?

I do not want to comment on any particular country, but even if you look at Italy, if you look at the polls, there is a very important majority of the Italian people who support the euro. We have seen that the Italian government – and I think that is something that is quite positive – has switched to an agreement with the European Commission on the draft budgetary plan of Italy. We have seen that since this agreement has been reached, the financial tensions in Italy have started to ease. I think that this is an indication that there is a way forward. My impression is that we have to explain very clearly to the European people that there is not an easy fix, that there are no magic solutions for complicated problems, but that the only way forward is to continue with the process of further integration at the European level, and that this is going to be the best solution and the best alternative in terms of the well-being, the lives of the European people.

How do you see this integration in the next five or ten years? Do you have some idea? For example, you mentioned a new member state - if the convergence criteria are fulfilled - regarding Bulgaria. Other things? What are you looking for?

I think that we cannot be complacent. If you look backwards with respect to the evolution of the European economy you realise that monetary policy has been the main driver of the recovery. We are entering into the fourth consecutive year of recovery in Europe. More than nine million jobs have been created within Europe. I think that monetary policy has been the main driver of this recovery. But there are other steps that we have to complete. For instance we started the project of the banking union; that is something that is quite relevant, we have a level playing field for all the banks in the euro zone. We created the SSM, the Single Supervisory Mechanism, also the Single Resolution Board. But there is a third part that has not been completed, there is a third pillar, the common deposit guarantee scheme. I normally say that a banking union is like a table. A table needs three legs in order to be stable. We have two – supervision and resolution – but we need a third one that is quite relevant, a common deposit insurance scheme, what we call EDIS in our jargon. So this is something where we have to take steps in order to make further progress.

And there is another very important project, the capital markets union. In order to do that we need to harmonise the different regulations among different countries, something that is not easy, something that has been put forward by Commission Vice-President Valdis Dombrovskis. But I think that is going to be key. Finally, well, we will have the discussion about a fiscal instrument in order to confront potential asymmetric shocks in the euro zone. From a political standpoint the last European Council decided that we should start with this fiscal facility. I think that is a first step. Normally long trips start with the first step. We have taken the first step in order to have this fiscal facility. I'm thinking that is something that should complement monetary policy in order to have all these instruments to confront shocks, to confront a crisis, because a crisis will arrive for sure.

Given the different approaches that the member states are having, do you feel that a two speed, a multi-speed Europe is a risk, a possibility, an inevitability?

I do not see it now. I think that we should work in parallel. I hope that we should create the political will in every country in order to work together and to advance and make progress together. I believe that a single speed is much better than a multi-speed euro zone or European Union.