

Luis de Guindos: Interview in Le Monde

Interview with Mr Luis de Guindos, Vice-President of the European Central Bank, in Le Monde, conducted by Ms Marie Charrel and published on 13 February 2019.

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Is the ECB sufficiently well equipped to deal with the slowing European economy?

Yes. But remember that monetary policy cannot do everything – its primary objective is to maintain price stability, which contributes to a strong economy. However, fiscal policy and structural reforms also have a significant role to play in supporting economic activity.

The ECB still has a large range of tools at its disposal, including advance communication about its strategy (forward guidance), reinvesting the debt securities it holds as they mature, and targeted lending to banks – the TLTROs. We are currently analysing the causes of the economic slowdown in Europe, some of which are temporary. We will not take a decision until we have conducted a thorough analysis.

What are the causes of this slowdown?

It is as much the result of international factors, which have weighed on exports – the slowdown of the global and Chinese economies, the risks of protectionism, market volatility, difficulties in some emerging markets – as it is the result of internal factors, like the uncertainty surrounding Brexit and the tensions over the Italian budget at the end of last year. Of course, the ECB's ability to influence external factors is limited.

When dealing with the crisis, we didn't hesitate to implement unconventional measures, such as net purchases of public and private debt (quantitative easing, or QE). In the light of the recovery, we stopped QE. But our rates are still low and our monetary policy stance will remain accommodative for a long while yet, as we are going through a period of uncertainty.

How are you preparing for Brexit?

The United Kingdom leaving the EU is bad news for everyone, and for the UK economy in particular.

We are participating in a working group with the Bank of England to analyse the various markets that could be affected, like the derivatives market and the market for insurance contracts. If there is an orderly Brexit, the effect on financial stability will be limited, as we think the private sector is sufficiently prepared.

A disorderly Brexit, on the other hand, would represent a significant macroeconomic shock at a time when the European economy is already weakened. The UK's GDP could shrink by up to 8%, according to the Bank of England. This would naturally affect the euro area economy. I hope we will avoid such a scenario.

Do the tensions over the populist Italian government's budget risk sparking a new crisis in the euro area?

Following the agreement in December between the Italian government and the European Commission on the Italian budget, the country's borrowing costs fell. This confirms that, when a country follows the common rules, its efforts go down well with the markets.

Italy's main challenge at the moment is its weak growth; this has been the case for several years now. Rome must urgently implement structural reforms in order to increase its growth potential

by resolving its productivity issues, regaining competitiveness and targeting internal weaknesses.

How much have the political uncertainties already cost the euro area in terms of growth?

It is very hard to measure this precisely, as it is very difficult to incorporate certain variables, like confidence and business sentiment, into macroeconomic models. Nonetheless, for the past six to nine months protectionism has been the main risk at the international level, and one of the major sources of market volatility. It is essential that the United States and China, as well as the EU, find common ground so that these tensions don't devolve into a trade war that would be harmful to everyone.

Why is inflation still struggling to recover in the euro area?

The situation in the job market has improved considerably in the euro area. Nine million jobs have been created since the crisis and the unemployment rate has fallen below 8%. Compensation per employee is also recovering. What matters is knowing when this increase will translate into a pickup in underlying inflation, which excludes the most volatile product prices, like energy prices. We are confident that it will pick up within a few months or quarters. Even if energy prices were to fall a little in the coming months, we are confident that inflation will, over the medium term, converge towards our aim of below, but close to, 2%.

For several months now, political leaders' criticisms of central bank independence have been growing, in Europe and, above all, in the United States. Does that worry you?

In recent decades, the independence of central banks has proven extremely effective in maintaining price stability. Political and economic agendas are very different. When monetary institutions act under the influence of political leaders, they run the risk of making serious mistakes that harm economic activity.

Very often, the threats made against their independence are part of populist rhetoric, which regularly proposes simple, magical solutions to complex problems. While these solutions may seem appealing, they are rarely correct.

Why has the ECB not used debt purchases to support more directly the ecological transition or the fight against inequality?

The ECB and the euro area national central banks have purchased many green bonds, both public and private, within the framework of their asset purchase programme, while ensuring that their purchases are conducted in a market-neutral manner. Furthermore, these asset purchases and the other measures taken by the ECB in recent years have been the main source of support for the economic recovery and the fall in unemployment in the euro area. All the studies we have carried out show that job creation is the main lever for reducing inequality.

Many people feel that the EU is not doing enough to protect them from globalisation. Are they right?

Despite national concerns on the subject, the recovery in the euro area is bearing fruit. It is creating jobs, and people are taking note of that. By way of evidence, recent surveys show that almost 80% of people in the euro area have confidence in the euro. Few political parties can boast such support! And this confirms that the Member States are stronger together than they are alone when it comes to dealing with globalisation.

Were you surprised by the “gilets jaunes” movement in France?

To a degree, yes, because France is one of the most egalitarian countries in Europe in terms of income distribution. But other factors have played a role.

Wouldn't it be more sensible for us to adjust to permanently weak growth rather than constantly seeking to raise GDP?

It's true that demographic trends in Europe are not very favourable for growth. But that shouldn't stop us from implementing reforms that aim to boost growth in the long term.

At the euro area level, we need to complete the banking union and the fiscal instrument that is essential to be able to stabilise the economy when there is a downturn. We also need to achieve greater integration, for example by encouraging the creation of cross-border banks. And that requires us to further harmonise legislation, and to pursue greater consolidation in the sector, even though banks are now much better capitalised and much more resilient than they were ten years ago.

Isn't money laundering a more urgent issue that needs tackling? Several European credit institutions, such as Danske Bank, Denmark's largest bank, have recently been hit by scandal...

Yes, it's a major issue that has been brought to the fore by several very serious cases. The ECB doesn't have a mandate in this area, but the European Commission has taken action to strengthen the cooperation between the various national anti-money laundering authorities under the auspices of the European Banking Authority. This is the first step, and more needs to be done to achieve greater centralisation in this area.