

Luis de Guindos: Interview with El País

Interview with Mr Luis de Guindos, Vice-President of the European Central Bank, and El País, conducted by Mr Luis Doncel on 11 October 2019, and published on 26 October 2019.

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Central bankers have become increasingly prominent figures. Would it be preferable for them to go back to being rather low key?

Monetary policy has been overly prominent because other policy areas have not taken action. That's not good.

Mario Draghi's term as ECB President is about to end. How will he be remembered?

His mandate was marked by the debt crisis, three country bailouts, the extreme situations in Spain and Italy, and the real prospect of Greece being forced to leave the euro area. With one sentence he made it patently clear that he would preserve the single currency, thus marking the beginning of the recovery from 2013 onwards. The second standout moment is large-scale asset purchases. Despite the challenges of ECB decision-making, he built a consensus for implementing a policy that at the time was strictly necessary. In so doing, he modernised the ECB's toolkit, bringing the institution into line with the Federal Reserve and the Bank of England.

His latest measures have been heavily criticised. Draghi himself has acknowledged that the side effects are increasing. Isn't it a contradiction to say that the ECB has room to act while, at the same time, warning of the adverse effects of its policies?

You have to find the right balance. We try to take action and do our part, but the side effects are becoming increasingly clear over time. Central bankers are not almighty. We cannot fix problems such as trade wars or Brexit. Fiscal policy, structural reforms and the banking union have their part to play. If they don't, the side effects will be larger. And that's what we want to avoid.

Are the fiscal plans announced by governments, for example in Germany and the Netherlands, sufficient?

The patchwork of fiscal policies – national policies and the Stability and Growth Pact – is not sufficient to deal with a severe downturn. The existing framework offers very little scope for complementing monetary policy. That is why I am convinced of the need for a centralised and independent fiscal instrument. It would also provide support to national fiscal policies.

The ECB has not met its inflation objective since 2013. Has it failed to fulfil its price stability mandate?

Let's not forget that the risk of deflation was averted, and that risk was extremely dangerous. Inflation has indeed been below the objective for some time, but behind this there are structural changes for which we don't yet have a full explanation.

Is this damaging the institution's credibility?

No. We would have had a credibility problem if deflation had taken hold. The question is why wage increases are not passing through to price inflation. This is one of the legacies of the crisis a decade ago.

What is Christine Lagarde's biggest challenge?

On the one hand, the severity of the economic slowdown. We expect growth to be slightly above

1%, but with downside risks. In the financial sector, the greatest challenges are banks' very low profitability, risks stemming from low rates and the assets managed by the funds industry, which have grown considerably.

The ECB's policies have had the undesired effect of redistributing income.

They have had a certain negative effect on savers and have potentially pushed up asset prices, but they have also had a positive effect in the form of economic growth, job creation and wage increases. According to our calculations, the net effect has added 2 percentage points to growth. As a result of the ECB's actions, the situation in Europe is nothing like it was ten years ago.

There has been criticism of the ECB becoming more political and less technical with Christine Lagarde and you at the helm – both of you are former ministers with no central banking experience.

Monetary policy must be just another element that has a place within economic policy. It's good to have experience in other areas. Central bankers have sometimes been working in an ivory tower. Christine Lagarde – not to mention myself – is well versed in the euro area's mechanisms. The ECB's decision-makers need to understand the context, make sound choices from among the alternatives and communicate appropriately. Ms Lagarde will do this extremely clearly.

Internal criticism, resignations, partisan leaks to the press... Divisions within the ECB seem to have flared up in recent weeks.

Strangely, there's sometimes more politics going on inside a central bank than in governments. Seriously though, the 25 members of the Governing Council should try to build a consensus. And when a decision is made, it must be embraced.

That isn't happening right now. Are these fights damaging the ECB?

I wouldn't say they are damaging it, but certainly they are not contributing to the effectiveness of the policies.

Criticism of Draghi is intensifying in the north of Europe. Are you fearful of disengagement from the European project in countries such as Germany?

We have to redouble our communication efforts. The ECB has delivered low inflation and a favourable environment in which Germany has enjoyed ten years of strong growth. Germany has been much better off with the euro.

In September the votes against came from countries that together account for more than half of the eurozone's population.

I don't represent Spain on the Executive Board. You have to act with the entire eurozone in mind. The "one member, one vote" system, as occurs in the Governing Council, is especially democratic as it avoids imbalances in the decision-making process. But we clearly have to consider Germany. If the German economy grinds to a halt, we will all be affected. We're all in the same boat.

Could Ms Lagarde's arrival ease some of these tensions?

I don't think there will be a sudden change in policy by any means. I'm confident that everyone on the Governing Council will work together with Christine Lagarde with unwavering loyalty from the outset.

The ECB has just lowered its growth forecasts, but some people think they are still too

optimistic.

The slowdown is coming from the external sector, which has a strong impact on countries like Germany. If it does fall into recession, it will be a technical recession and the economy will rebound quickly. The risk is not so much one of recession, but rather of entering a prolonged period of very moderate growth, below 1.5%. This is why players other than the ECB have to get involved.

Is the euro area prepared for a no-deal Brexit?

The financial sector is, yes. But the main impact will not come from the financial sector; it will come from the overall impact on the United Kingdom, which is the second-largest European economy. Contingency plans are in place in the financial sector, but other sectors are not as well prepared.

The Spanish economy is also starting to be a concern.

Spain has enjoyed above-average growth since 2013, but nobody can escape the global slowdown. That said, the Spanish economy can steer clear of a recession if mistakes are avoided, because it is much better prepared than in the past. It is more competitive, its banking sector is healthier and levels of private debt are lower.

And government debt of close to 100% of GDP Did we waste the opportunity to bring it down more quickly in the good years?

Considerable efforts have been made. Spain's deficit had reached 11% of GDP, but this year it will be around 2%. It's always the case that more could have been done, but equally less could have been done.

To what extent is the current political deadlock weighing on the economy?

I won't comment on countries' internal political issues. All I can say is that I was an acting minister for almost a year, and it's not a nice situation to be in. A cyclical slowdown is coming, but certainly not a crisis like we saw in 2008.