

Luis de Guindos: Interview with El Mundo

Interview with Mr Luis de Guindos, Vice-President of the European Central Bank, and El Mundo, conducted by Mr Pablo Rodríguez Suanzes on 25 November 2019 and published on 2 December 2019.

* * *

How are you finding life in Frankfurt?

Frankfurt is a nice city, I like it. The ECB is the most important institution in the framework of the EU, and of the euro area in particular. Exposure to the public is very different to when you're in government. Here, the relationship is mainly with the European Parliament, through hearings, and with the public, through speeches. Is my life better? It's different.

How do you feel about not being able to speak as freely as before?

I can keep speaking normally. I still attend the Economic and Financial Affairs Council (ECOFIN); each week, we have discussions in various forums on issues around monetary and economic policy and financial stability. So I have something to offer, but my contributions aren't political.

Do you miss it?

I don't miss anything. That was my job for six years. I'm not at all bored here.

When and why did you decide you wanted to try to become the Vice-President of the ECB?

I wanted to leave the government at the end of its first term. I spoke to President Rajoy and we said it could be a possibility, and it was very attractive to me. It's the most important institution in the euro area, very prestigious. It takes very significant decisions, which made it an extremely attractive proposition.

How do you explain the arrival of people like you or Christine Lagarde, who have a different profile to the one that ECB Executive Board members have traditionally had?

I don't think anything was predetermined or premeditated. Members of the Governing Council have different profiles and each of them contributes according to their experience. I contribute my knowledge of the European economy and the financial system, and my experience taking decisions when the Spanish economy was at its most delicate moment.

What role does politics play in the ECB?

The 25 members of the Governing Council don't always agree, although many of the decisions we take are unanimous. There are those who think that the situation requires further measures, and others who think we have already gone too far. We look for a consensus. The decisions are very democratic – one Governor, one vote – but actually taking a vote is an exception, not the rule.

In recent months there has been very strong, unprecedented public criticism.

I'm not at all concerned by the fact that there are differing views, that's healthy and it's normal because there are 25 of us. But what has been happening in recent months has not been very helpful. It hasn't undermined the effectiveness of the September package of measures, because it went ahead as planned, but it's much better to be united. We are a collegial institution and once we have reached an agreement, everyone should defend it. This is not to say, for example, that I

agreed with every element of the package. But once something has been approved, I defend it.

Is the consensus broken?

No. This is actually one of the top priorities of the new President. Each of us will have our own ideas about the situation and the appropriate measures to take, that's one thing, but it's something else entirely to air disagreements in public.

You and Mr Draghi have met at various forums since 2011. How was the past year when you were working side by side?

Mario Draghi will go down in history as one of the founding fathers of the euro, even though he isn't one in the strictest sense. There were two stages to his presidency. The first was saving the euro, with his famous "whatever it takes". The second was fighting deflation. These were his two main interventions, and he was successful in both. He will be remembered very positively. When he uttered those famous words in London in 2012, he changed the outlook in the euro area. The banking union was implemented right away. Four or five years ago we were facing the risk of deflation and the asset purchase programme was launched, which brought the ECB in line with other central banks. Mario Draghi has modernised the instruments of monetary policy.

Despite this, his critics point to the fact that he has left behind a European economy that is "drugged", with low growth, rates at zero and inflation very far from the objective.

Monetary policy is not the reason for this; it's been the main driver of the economic recovery and growth in Europe. 11 million jobs have been created, in no small part thanks to monetary policy. This is the main thing, although there are collateral effects. The problem we have at the moment is that these monetary policy decisions need to be complemented by other instruments.

Sometimes it seemed like you were not exactly among Mr Draghi's most ardent supporters.

I have always supported President Draghi.

But when you heard him being talked about as *the* saviour of the euro or the person who had rescued Spain, it didn't sit well with you.

Well, he didn't see it like that either. In Spain, we rescued ourselves, off our own backs, with the help of our European partners, including the ECB. Mr Draghi made a key contribution, but there's no single saviour here. It was a set of circumstances and a matter of everyone carrying out their responsibilities in their individual roles.

As Vice-President will you continue to appear alongside President Lagarde?

I have no idea. I suppose it will continue like that. It's an unwritten rule, a tradition. Traditions can change, but they can also be of value.

Brexit, trade and currency wars, geopolitical tensions. All of this in an environment of lower growth, zero rates and stimulus plans. When you were in government you joked that you slept like a baby, in that you woke up crying every two hours. How are you sleeping now?

Well. Very well! I wouldn't wish what happened in 2012 on my worst enemy. The situation now is totally different; back then we were on the brink of collapse. The Spanish economy, the Italian economy, doubts about the integrity of the euro... the situation of the Spanish banking industry was terrifying and contagion was spreading to the Treasury. It was a dramatic situation. I don't think there is going to be a recession in Europe, that's very unlikely. But yes, I am worried that we

will have two or three years of subdued growth, of below-potential growth. That is what is worrying me at the moment. And that this subdued growth may mean that the price stability objective is not met. Monetary policy is not the philosopher's stone, it cannot be used to fix everything. Other policies are needed.

So do you echo the calls of Presidents Draghi and Lagarde for countries with fiscal space, above all Germany, to boost spending and investment?

This is important, yes, but my proposal goes further than that. Our current system of national fiscal policies and national budgets, with a set of rules like the Stability and Growth Pact, is not sufficient. We need a fiscal instrument of the sort proposed by President Macron a few years ago. An instrument that has the capacity to act countercyclically and that complements monetary policy.

But it's something you were already asking for when you were a minister, and it's not happening now, and even in the best of cases it won't happen for another four or five years. And without that level of firepower...

We have to call for it because it is sensible. It is not a question of whether it is possible, but rather one of reality. It would be very important for the entire euro area and I am convinced that it will come about sooner rather than later.

What are your thoughts on the Spanish economy?

The Spanish economy is doing well. It is competitive and enjoying above-average growth, and that is the result of the reforms in 2012 and 2013 and society's efforts. It is doing well, that's the truth. It has been affected by the economic slowdown, like the rest of the euro area, but growth is still at 2%. Why? The financial sector was cleaned up, and the economy is now competitive. Those are the two reasons why it is doing better.

Spain didn't have any issues during the growth phase of the cycle. But now we are maybe seeing the effects of not having made any reforms in recent years, deferred budgets, or adjusted deficits during growth periods.

My recommendation is for the euro area as a whole, not just for Spain. If you have debt approaching 100% of GDP, you have to reduce it to be less vulnerable.

Are you worried by the political uncertainty?

Political uncertainty is an important factor because we always need stable governments capable of taking action. And this is of course quite obvious: we don't have the political stability necessary to put into place the necessary measures and policies, including a budget.

What do they think here in Frankfurt about the fact that the budget has been deferred since the time when you were still a minister?

Spain has continued to reduce its public debt. It could have been reduced more, but it could also have been reduced less. In any case there is one fundamental factor: the growth differential. In the Spanish economy, this now comes from a financial sector that doesn't have the same doubts hanging over it as it did five to seven years ago. And it is competitive. The most important thing, in contrast to the previous and other growth cycles, is that it is growing without an increase in loans and without a real estate bubble. With lending growth that is below nominal GDP and a current account surplus in the balance of payments. As long as these two things continue, the Spanish economy will keep growing faster than the rest. The recommendation, which is also valid for Portugal, Greece and Ireland, and even for Italy, is this: stabilise the banking sector and the credit markets. And maintain competitiveness. Then you will do better than average.

The public message is quite clear. Are there more discreet messages in private?

No, none. I say the same thing in public that I do in private.

Have the ECB's non-standard measures run their course?

No. We can still increase bond purchases or lower interest rates further, which means that we still have the same tools available. What is happening is that the secondary effects are becoming more tangible .

And each measure has less of a return.

I look at the effects, and these can vary greatly. I am worried by risk taking in the asset management sector against the background of low interest rates. It is a matter of concern for me. Banks are now better capitalised, they have more liquidity, and they are much safer than they were. But they face low profitability, which is a problem. Supervision is centralised and is more suitable than when it was the remit of national authorities. But in the area of asset management and investment funds, what we see is that, in a low interest rate environment, their investment strategy always moves towards increased risk, in the sense of assets with potentially greater returns and greater risks but that are less liquid. And there is also more leveraging, not to the extent seen in the United States, but still more than before. And the supervision in this sector is not comparable with that in the banking sector. There is a risk. If they are asked for units to be paid out they have to do so within two or three days. I see a potential risk of liquidity imbalance. That is what worries me the most at the moment. And, while it may not technically be a secondary effect of monetary policy, because its causes are structural, I am concerned by the banking sector's low profitability.

Are you in favour of changing or widening the ECB's mandate? Or of defining more precisely what is below, but close to, 2%?

We have to look at that, yes. The ECB set out its strategy in 1998 and revised it in 2003 and, while it can't be a change of mandate, since that is defined in the Treaty, we could revisit the definition of price stability. And what are the steps to achieve that? I am in favour of starting the discussion, but we haven't had it. The President has announced it, but this is not a matter of one or two Governing Council meetings; it is something that must be done without haste, but decisively.

What about "helicopter money", i.e. giving money directly to citizens?

No, that has never been considered.

But should it be considered, just like changing the mandate?

No, absolutely not.

There is a lot of talk currently about "Japanification", about secular stagnation. Add to this demographics and the fact that there is a smaller working population with lower productivity than before. What scares you the most?

From a journalistic standpoint talking about Japanification is attractive, but there are actually many differences. While European demographics are not brilliant, they cannot be compared with Japan. The situation facing banks here is not as bad. No real estate bubble has burst here the way it did there. The parallels are in low inflation, low interest rates and low growth. But the outlooks are different and I don't think that the term really applies to the European economy.

Will EDIS be complete when you leave office?

Yes, I think it will, and quite a few years before that, in fact.

One of the German proposals is to limit the amount of sovereign debt held by financial entities. Spain has experienced precisely that, with only national entities continuing to buy public debt at the same rate. Does that seem reasonable to you?

It's a starting point. Completing EDIS is crucial. But we also have to take measures simultaneously to limit how much risk is generated by certain countries. In my experience with Banco Popular and the savings banks, the problem wasn't public debt. The underlying problem was other types of loans that led to solvency problems.

Does the issue with Popular, Villarejo and BBVA bother you?

We do not comment on specific situations. Of course, European banking supervision and risk surveillance is on the lookout for anything that might have an effect on financial stability, but so far we have not seen anything.