Luis de Guindos: Interview with El País

INTERVIEW

Interview with Luis de Guindos, Vice-President of the ECB, conducted by Luis Doncel on 11 October 2019

26 October 2019

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.

[CO2 emissions from ships: Council agrees its position on a revision of EU rules]

The EU is making efforts to **cut red tape** for ship owners while **maintaining its high standards** for the monitoring of **CO2 emissions from maritime transport**.

Today, the ambassadors of EU member states agreed on their position on a proposal which updates existing EU rules, and partially aligns them with the global data collection system for ship fuel oil consumption of the International Maritime Organisation (IMO).

> The maritime transport sector has to become more energy efficient and use less fuel to contribute to our climate goals. We want companies and the general public to know how much fuel each ship uses. This means we will be able to compare ships' emissions and choose more energy efficient ones. This has environmental benefits. We are also looking to the future, as we are asking the Commission to review this regulation in light of further experience gained.
>
> *Krista Mikkonen, Minister of Environment and Climate of Finland*

As of 2019, ship owners are obliged to monitor and report under two systems: the EU MRV (monitoring, reporting, verification) regulation and the global IMO DCS (data collection system). The Council agrees that partly aligning the definitions, the monitoring parameters and the monitoring plans and templates of the MRV regulation contributes to **reducing the administrative burden** for shipping companies and national authorities and facilitates compliance with the reporting obligations under the two systems.

However, the Council believes that the monitoring and **reporting of cargo carried should remain compulsory**. This information contributes to a better understanding of the fuel efficiency of ships. The Commission had proposed to turn cargo carried into a voluntary reporting element.

The Council also added a clause which asks the Commission to **review the functioning of the regulation**.

The agreement reached among the ambassadors of EU member states at today's meeting of the Committee of Permanent Representatives means that **the Council is ready to start negotiations with the European Parliament**. The European Parliament has not yet reached a position on this proposal.

The full text of the Council position will be linked to this press release within a few days.

Background

Global shipping activity emits significant amounts of greenhouse gas emissions and contributes to climate change due to its consumption of fossil fuels. **The emissions from international maritime transport** are estimated to be around 2-3% of total global greenhouse gas emissions. This is **more than the emissions of any EU state**. If the shipping sector were a country, it would rank sixth in emissions in the world.

At EU level, CO2 emissions from maritime transport **increased by 48% between 1990 and 2008**. In 2015, maritime transport caused 13% of the overall EU greenhouse gas emissions from the transport sector.

In 2015, the Council and the European Parliament adopted the so-called **MRV regulation**, which for the first time set out rules for the monitoring, reporting and verification of CO2 emissions from maritime transport. Shipping companies have to report their annual CO2 emissions and other relevant information arising from their ships' voyages to and from European Economic Area (EEA) ports, including CO2 emissions from these ships in ports. This concerns ships above 5000 gross tonnage – smaller ships are excluded from the rules. The monitoring of fuel consumption, CO2 emissions and energy efficiency started in 2018, and shipping companies had to submit their first emissions reports in 2019.

At global level, the International Maritime Organisation (**IMO**) created its legal framework for a **global data collection system (DCS)** for fuel oil consumption of ships in 2016. Under the IMO DCS, monitoring obligations start in 2019, and first reports need to be submitted in 2020. As a result, since January 2019 ships performing EEA-related maritime transport activities have to fulfil monitoring and reporting requirements under both the EU MRV Regulation and the global IMO DCS.

The main objective of this proposal is therefore to amend the EU MRV Regulation in order to take appropriate account of the new global IMO DCS, with a view to allow for **streamlining and reducing administrative effort** for companies and administrations as far as possible, while preserving the objectives of the EU MRV Regulation.

Article – Plenary highlights: EU's 2020 budget, Syria, Sakharov Prize, bees

Brexit

MEPs discussed on Tuesday the Brexit agreement reached last week between EU and UK negotiators. The constitutional affairs committee has already started to scrutinise the deal, but most members think Parliament should only vote on it after the UK has given its approval. Check out what Parliament's Brexit coordinator Guy Verhofstadt had to say about the deal in our Facebook Live.

EU budget for 2020

On Wednesday Parliament adopted its position on the EU's budget for next year, ahead of negotiations with the Council. MEPs want an addition €2 billion to fight climate change.

Syria

MEPs discussed Turkey's military operation in Syria on Wednesday. They condemned Erdogan´s government and called on the EU to adopt measures against the country, such as sanctions against government officials, an arms export embargo and a suspension of trade agreements or even the customs union.

Bees

In a resolution adopted on Wednesday, MEPs are asking the European Commission to come up with stricter rules to protect bees from pesticides and also voted against the current proposal, which was watered down by EU countries.

Sakharov Prize

Parliament's Sakharov Prize for Freedom of Thought goes to Ilham Tohti, a jailed economist fighting for the rights of China's Uyghur minority. Parliament president David Sassoli announced the 2019 winner on Thursday. The award ceremony is scheduled for 18 December in Strasbourg.

Juncker

In a debate with Jean-Claude Juncker on Tuesday morning, MEPs took stock of the work and achievements of the outgoing Commission. They praised him on dealing with the Brexit negotiations and the economic and migration crises and for moving away from austerity,. However, they also said more could have been done on climate change and environmental protection as well as on measures to protect whistle-blowers.

Enlargement

Parliament confirmed on Thursday its support for opening EU accession talks with Albania and North Macedonia while MEPs expressed disappointment over the lack of agreement among EU countries.

Tax transparency for multinationals

MEPs urged member states to find agreement on draft rules obliging multinationals to report publicly on their profits and tax paid in each EU country in a debate on Tuesday. The measure aims to boost transparency and discourage profit shifting, but the Council has still not managed to agree a position.

Thomas Cook

Following the bankruptcy of UK travel agency Thomas Cook, MEPs called Thursday for plans to mitigate the economic impact and for stronger protection of consumers.

Results of the Q4 2019 ECB Survey of Professional Forecasters

PRESS RELEASE

25 October 2019 [Updated on 25 October at 11:45]

- Inflation expectations revised down on average across all horizons
- Real GDP growth expectations revised down, particularly for 2020
- Unemployment rate expectations revised up

Respondents to the ECB Survey of Professional Forecasters (SPF) for the fourth quarter of 2019 reported point forecasts for annual HICP inflation averaging 1.2% for 2019 and 2020 and 1.4% for 2021. These results represent, for the fourth successive round, downward revisions of 0.1 percentage points on average for each of those years compared with the previous survey round. Average longer-term inflation expectations (which, like all other longer-term expectations in this SPF, refer to 2024) remained at 1.7%.

SPF respondents' expectations for growth in euro area real GDP averaged 1.1%, 1.0% and ~~1.4%~~1.3% for 2019, 2020 and 2021, respectively. This represents downward revisions from the previous round, notably for 2020. At 1.4%, average longer-term expectations for real GDP growth were unchanged.

Average unemployment rate expectations were revised up by 0.1 percentage points for horizons beyond 2020 and stand at 7.6%, 7.5% and 7.4% for 2019, 2020 and 2021, respectively. Expectations for the unemployment rate in the longer term were also revised up to 7.4%. Notwithstanding the upward revisions, the latest expectations continued to point to further falls in the unemployment rate.

Table: Results of the ECB Survey of Professional Forecasters for Q4 2019
(annual percentage changes, unless otherwise indicated)

Survey horizon	2019	2020	2021	Longer term (1)
HICP inflation				
SPF Q4 2019	1.2	1.2	1.4	1.7
Previous SPF (Q3 2019)	1.3	1.4	1.5	1.7
HICP inflation excluding energy, food, alcohol and tobacco				
SPF Q4 2019	1.1	1.2	1.4	1.6
Previous SPF (Q3 2019)	1.1	1.3	1.5	1.7
Real GDP growth				
SPF Q4 2019	1.1	1.0	1.3	1.4
Previous SPF (Q3 2019)	1.2	1.3	1.4	1.4
Unemployment rate (2)				
SPF Q4 2019	7.6	7.5	7.4	7.4
Previous SPF (Q3 2019)	7.6	7.4	7.3	7.3

1) Longer-term expectations refer to 2024.

2) As a percentage of the labour force.

For media queries, please contact Stefan Ruhkamp, tel.: +49 69 1344 5057.

Notes

- The SPF is conducted on a quarterly basis and gathers expectations for the rates of inflation, real GDP growth and unemployment in the euro area for several horizons, together with a quantitative assessment of the uncertainty surrounding them. The participants in the survey are experts affiliated with financial or non-financial institutions based within the European Union. The survey results do not represent the views of the ECB's decision-making bodies or its staff. The next ECB staff macroeconomic projections will be published on 12 December 2019.
- Since 2015 the results of the SPF have been published on the ECB's website. For surveys prior to the first quarter of 2015, see the ECB's Monthly Bulletin (2002-14: Q1 – February, Q2 – May, Q3 – August, Q4 – November).

- This survey was conducted between 1 and 7 October 2019. The number of responses was 53.
- The SPF report and data are available via the SPF webpage and via the ECB’s Statistical Data Warehouse.

Related information

Media contacts

ECB and People’s Bank of China extend bilateral currency swap arrangement

PRESS RELEASE

25 October 2019

- European Central Bank and People’s Bank of China extend the bilateral currency swap arrangement established in 2013 for another three years
- Swap arrangement has a maximum size of 350 billion Chinese renminbi and €45 billion
- Can serve as backstop liquidity facility to address potential shortage of renminbi for euro area banks

The European Central Bank (ECB) and the People’s Bank of China (PBC) have decided to extend for another three years, until 8 October 2022, their bilateral currency swap arrangement at unchanged conditions.

The ECB and the PBC established the first three-year bilateral currency swap arrangement on 8 October 2013 with a maximum size of 350 billion in Chinese renminbi and €45 billion, which was subsequently extended in 2016 for another three-year period.

From a Eurosystem perspective, the arrangement serves as a backstop facility to address potential sudden and temporary liquidity shortages in euro area banks due to disruptions in the renminbi market. Liquidity providing arrangements contribute to global financial stability. The arrangement with the PBC reflects rapidly growing bilateral trade and investment between the euro area and China.

For media queries, please contact Eva Taylor, tel.: +49 69 1344 7162.

Media contacts