Luis de Guindos: Interview with Expresso

INTERVIEW

Interview with Luis de Guindos, Vice-President of the ECB, conducted by João Silvestre on 15 April 2020

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Is this the greatest crisis in living memory?

According to the International Monetary Fund (IMF), this will be the worst downturn since the Great Depression. There is a great deal of uncertainty and, given this degree of uncertainty, we need to define and analyse several scenarios. The IMF's baseline scenario is very similar to other public and private sector forecasts. It's important to bear in mind that the impact on the economy, which will be huge, is concentrated in the second quarter of the year – as well as in March – and that the impact will be severe, but temporary. This temporary aspect is important. The calculations point to a contraction in the second quarter by as much as 20% compared with the previous quarter. And it will also have an impact on public finances and the financial markets.

Despite the uncertainty you have mentioned, is a rapid recovery possible in 2021?

The key factor is the duration of the lockdown – the longer it lasts, the greater the impact. We hope that the containment measures will start to be eased over the coming months, reducing the negative impact on the economy, and that we will see a return to positive growth rates in the second half of the year. But it will be hard for the recovery in the second half of 2020 and 2021 to make up for this year’s downturn.

Is the ECB’s current monetary policy sufficient to deal with the economic impact of the coronavirus (COVID-19), or can we expect additional measures soon?

We have taken a number of key measures. In terms of monetary policy, our response to the situation has been very active, with three types of measure. First, we have provided liquidity to the banks, adjusting the rules on collateral for accessing liquidity-providing operations. European banks therefore have more liquidity at their disposal and at more favourable conditions. Second, we have responded with the measures taken by the ECB Banking Supervision. To avoid a credit crunch, we have eased the requirements on capital held by European banks, the classification of non-performing loans and the accounting rules. And third, we have launched the €750 million Pandemic Emergency Purchase Programme (PEPP), which will increase the total assets purchased by the ECB to €1.1 trillion in 2020. This is a large sum in order to maintain financial stability in the debt markets, in particular in the government bond markets, and to safeguard the monetary policy transmission mechanisms. In addition, of course, we have the fiscal policies of national governments and the European Commission, as well as the decision by the Eurogroup last week.

Do you think that the measures adopted last week by the Eurogroup are enough to deal with the severity of the problem, or should the finance ministers have gone further? With coronabonds, for example, or similar solutions.

The agreement made was a commitment that goes in the right direction. It’s important to remember that. To reach a compromise, everyone has to give way a little and to believe in it. The agreement is a sign of political commitment. As for other possible measures, such as coronabonds, the ECB has always been in favour of the existence of a fiscal instrument at European level that can complement monetary policy. It is just that this is a political decision. We are in favour of it, we think it would be a good thing for the euro area, but we will see what happens. The European Council meets on 23 April. We consider it to be a useful instrument, but it is not up to the ECB. It’s for the European governments to decide.

And what do you expect will happen? Do you think that it’s possible to reach a political agreement to take this step towards coronabonds or is it just a dream?

I couldn’t possibly say what will happen. All I can say is that the current situation is difficult and that the commitment made by the Eurogroup was positive, but let’s see. The possibility of a recovery fund being set up is a good idea. The size of the fund and how it is funded is left open to discussion. That’s why it depends on what the European governments decide.

Why did the ECB decide to launch a new programme, the PEPP, just a few days

after announcing that it was strengthening the previous programme. Was your initial assessment of the situation too optimistic?

Within three or four days we saw a rapid deterioration in the situation. Containment measures were taken in several countries, and we realised that the impact on the economy could be enormous, with repercussions on the financial markets. It was a swift reaction on our part. It helped to calm the financial markets and it was well understood.

Interest rates are falling in several countries, in particular in Italy. Is this something that the ECB is concerned about?

We are concerned about a combination of problems: a deep recession, a huge impact on public finances and an increase in funding needs. This causes tension in the financial markets and, in particular, the government bond market. We are going to remain vigilant. As we have said on several occasions in the recent past, we are not going to allow any fragmentation of the bond market and we will act accordingly. We have a new instrument – the PEPP – and we can use it flexibly in terms of timing and the assets we purchase. That's why I hope we can deal with this situation.

Am I to conclude from your comments that the ECB is prepared to strengthen the programme or take other measures in order to respond to any tensions that may arise?

We have a programme that we are implementing. The ECB's Governing Council has not made any decisions regarding further programmes. We are keeping an open mind in terms of how to respond to further developments and tensions within the markets. Because we are completely committed to maintaining stability in the financial markets and to avoiding the fragmentation that could prevent the functioning of the monetary policy transmission mechanisms.

In countries such as Portugal, Spain and Italy, people are concerned that we could see another crisis, like the sovereign debt crisis in 2010-11. Can the ECB confirm that it will do all that is needed to avoid such a scenario?

We have shown our commitment, with liquidity, by making capital requirements for banks more flexible and with the asset purchase programme. We are extremely committed. The current crisis is quite different to the one we saw in 2010-11. It did not originate in budgetary issues or the banking system. It was a massive exogenous shock. This is a health emergency which has become an economic problem. Our current efforts are focused on preventing it becoming a debt crisis.

Are banks in Europe better equipped to deal with this crisis than in 2008? Or can we expect to see banks fail in various countries?

Things are very different to ten years ago. Banks have more capital, they have more liquidity and are more resilient. The bigger concern is profitability, which was already low. European banks are solvent but I am aware that this crisis will have further impact on their profitability. In the medium term, banks will need to continue to take steps to eliminate excess capacity and consolidation could be a sensible way of dealing with profitability. From a solvency angle, this is not a banking crisis. This time banks can be part of the solution, rather than the problem.

If the recession is worse than expected, is there a risk that some banks will lose money on loans which they are currently granting?

All governments, Portugal included, have approved State guarantees. When there is this level of uncertainty and a drop in GDP, these guarantees are very important and useful if a credit crunch is to be avoided.

A number of economists have expressed the view that the euro area's response to the crisis has been weak compared to the United States or the United Kingdom, where central banks will even finance the State directly. How would you respond to these criticisms?

Looking at the whole package of ECB measures, it is impressive. Then we have fiscal policy, involving the various programmes of the national governments, and lastly there is the decision of the Eurogroup. Europe's response is comparable to that of other world economies.

What advice would you give to euro area governments on how to deal with the economic impact of this pandemic?

We need to be aware that this will lead to a significant drop in business revenues and the public sector will need to fill this gap. The main factor in terms of ensuring the economy starts to recover when the health situation improves is to try to "vaccinate", as best we can, the business ecosystem of each country. What we need to do is try to keep the business system alive, as much as possible, and to come through this period. That is what my advice would be. Keeping this ecosystem going is also important in terms of safeguarding jobs and reducing the social impact.

Press release – COVID-19: MEPs free up over €3 billion to support EU healthcare sector

The EU funds should directly support healthcare systems in EU member states in their fight against the coronavirus pandemic. The initiative should allow the EU to buy urgent medical supplies, such as masks and respiratory equipment, transport medical equipment and patients in cross-border regions, finance the recruitment of additional healthcare professionals to be deployed to hotspots across the European Union, as well as helping member states to construct mobile field hospitals.

A total of €3.08 billion from the EU budget will be channelled mainly through the Emergency Support Instrument (€2.7 billion) and through rescEU (€380 million).

The package includes additional funds to finance repatriation flights (€45 million) under EU Civil Protection Mechanism to reunite families stranded in third countries, to provide more resources for the European Centre for Disease Prevention and Control (€3.6 million), but also to help Greece deal with increased migratory pressures (€350 million), and to support Albania's post-earthquake reconstruction (€100 million).

Budget Committee MEPs already called in March for available financial means remaining in the 2020 budget to be mobilised.

Vote results for the package:

- Draft amending budget No 1/2020
  599 votes in favour, 20 against, 77 abstentions
- Draft amending budget No 2/2020
  691 votes in favour, 4 against, 1 abstention
- Regulation amending the multiannual financial framework for the years 2014-2020

464 votes in favour, 11 against, 4 abstentions
- Mobilisation of the Flexibility Instrument for 2020 – 2020/2053(BUD)
603 votes in favour, 18 against, 75 abstentions
- Mobilisation of the Flexibility Instrument for 2020 – 2020/2056(BUD)
665 votes in favour, 10 against, 20 abstentions
- Mobilisation of the Contingency Margin in 2020
690 votes in favour, 4 against, 2 abstentions

Background

Recently, the Commission proposed two Draft Amending Budgets (DAB 1/2020 and 2/2020) as part of a comprehensive set of measures to provide support in the fight against the COVID-19 outbreak.

The **Emergency Support Instrument** (ESI) was created in 2016 to deal with the massive influx of refugees in Greece.

The **rescEU medical capacity stock** will be hosted by one or several member states. The hosting state will be responsible for procuring the equipment. The Commission will finance 100% of the medical supplies. The Emergency Response Coordination Centre will manage the distribution of the equipment to ensure it goes where it is needed most.

Press release – COVID-19: Stepping up EU’s response to alleviate the effects of the crisis

In Friday’s extraordinary plenary session, the European Parliament endorsed the “Corona Response Investment Initiative Plus” (CRII+) package proposed by the European Commission on 2 April by means of an urgency procedure.

The approved proposals are:

Specific measures so that EU funds can be used flexibly. The adopted measures will allow member states to transfer resources between the three main cohesion funds (the European Regional Development Fund, the European Social Fund and the Cohesion Fund), between the different categories of regions and between the funds’ specific priority areas.

Exceptionally, it will be possible to fully finance cohesion policy programmes related to COVID-19 through 100% EU funding during the accounting year starting on 1 July 2020 and ending on 30 June 2021. The measures also simplify programme approval to speed up implementation, make financial instruments easier to use and simplify audits.

New rules will allow farmers to benefit from loans or guarantees at favourable conditions to cover their operational costs of up to €200.000. They will also free unused agriculture-related rural development funding to fight COVID-19.The proposal was adopted with 689 votes in favour, 6 against and one abstention.

Specific measures to mitigate the impact of the COVID-19 outbreak in the fishery and aquaculture sector. Measures include supporting fishers that have to temporarily stop operating, financial aid for aquaculture producers when production is suspended or reduced, support to producer organisations for temporary storage, as well as a more flexible reallocation of national operational funds.

MEPs also approved, following informal agreement with the Council, a series of improvements that will allow support to be given to new fishers and fishers on foot (i.e. those fishing without a boat). These improvements will also adapt provisions for outermost regions to deal with the crisis, as well as providing budgetary flexibility to help countries that have exhausted all allocated funding. The amended proposal was adopted with 671 votes in favour, 10 against and 15 abstentions.

Specific measures to guarantee the continued functioning of the Fund for European Aid to the Most Deprived (FEAD). Measures include the possibility to finance the provision of protective equipment for workers and volunteers, the temporary 100% co-financing from the EU budget and lighter reporting and audit measures during the COVID-19-crisis.

Following informal agreement with the Council, MEPs also approved changes that allow for aid to be delivered using new methods, such as through electronic or paper vouchers, to ensure the safety of everyone involved in the operations and to reach the most vulnerable and excluded. The approved measures aim to protect the most vulnerable people from falling victim to COVID-19 and to ensure that food aid and basic material assistance still reaches them, while respecting social distancing and personal protection. The amended proposal was adopted with 686 votes in favour, 7 against and 3 abstentions.

Next steps

The Council has to formally approve Parliament’s position. The adopted measures will enter into force once published in the Official Journal of the European Union in the coming days.

Press release – Parliament decides to postpone new requirements for medical devices

Parliament adopted the Commission proposal on Friday, by urgent procedure with 693 votes to 1 and 2 abstentions, allowing the application of the Medical Devices Regulation to be postponed by one year until 26 May 2021.

Given the current pressure on national health authorities and manufacturers of medical devices, there is a fear that there could be shortages or delays in getting the medical devices needed to fight COVID-19, were they to follow the new rules of the Medical Devices Regulation from May this year.

The European Parliament is therefore supporting the proposal to postpone the application of this Regulation by one year to allow authorities and manufacturers alike to prioritise the fight against the coronavirus pandemic by continuing under current procedures.

Next steps

The proposal now also has to be approved by the member states and published in the Official Journal before it will enter into force. This is expected at the latest by 26 May.

Background

European legislation ensures that medical devices are safe to use and facilitates patients' access to devices on the European market.

In 2017, two new regulations on medical devices and in vitro diagnostic medical devices were adopted to improve patient safety and increase transparency on medical devices across the EU. The new regulation for medical devices was supposed to be fully applicable on 26 May 2020. The date of application of the In Vitro Diagnostics Medical Devices Regulation is not affected by the new proposal and becomes applicable from 26 May 2022, as planned.

Statement on principles to mitigate the impact of Coronavirus/COVID-19 on the occupational pensions sector in Europe

Today the European Insurance and Occupational Pensions Authority has issued aStatement on principles to mitigate the impact of Coronavirus/COVID-19 on the occupational pensions sector.

The statement recognises the stabilising role that institutions for occupational retirement provision (IORPs) can play as long-term investors in the current economic climate.

The statement, addressed to national competent authorities, outlines principles related to:

- Business continuity and operational risk
- Liquidity position
- Funding situation and pro-cyclicality
- Protection of members and beneficiaries; and
- Communication

EIOPA continues to work closely with national authorities to assess and mitigate the impact of the Coronavirus/COVID-19 on the insurance and occupational pensions sector.

Read the statement