

2013-09-21- RTE – Jörg Asmussen - Interview

Question: Okay, Jörg. Thank you very, very much for doing this. And I suppose we'll go, if that's okay with you.

Asmussen: That's perfect. Go ahead.

Question: Okay. Jörg Asmussen, Ireland exiting the bailout, the troika bailout, that's the big issue facing us. Do you think we're going to be successful?

Asmussen: I think yes because the program implementation in Ireland remains on track. We see a very gradual recovery in the economic activity in the second half of this year. You know that the national accounts released for the first quarter were weaker than expected. But when we look at more recent data in Ireland and outside Ireland, the data have been favourable and they support the expectation that a gradual recovery over the second half of this year can take place.

And you know much better than I do that developments in the Irish labour markets are encouraging. Yes, of course, important challenges remain, in particular in the financial sector, where there is a need to speed up banking reforms and to tackle arrears more forcefully. But in relation to the period beyond the current program, a decision will have to be taken in the upcoming month. And here a key consideration is that the conditions remain for a successful conclusion of the current program, that means for an exit of the current program. And I think in this respect Ireland is leading the way. And looking ahead, it will be essential to ensure that the appropriate framework is in place so as to safeguard all the achievements that have been really hard won and to mitigate potential risk to full market access once the program is successfully completed.

Question: Well now those hard-won advances, as you say, they have been very difficult to achieve over a number of years. But because of the program which has been implemented and because of, I suppose, austerity packages elsewhere in Europe, is it particularly important that for the troika, for the ECB, for the EU, that there is a success? Is it really important that Ireland gets out of this?

Asmussen: I think first and foremost it's important and it's something to celebrate for Ireland itself. Yes. This is the key. The program objective for all countries is that they can successfully exit a program, that they can re-enter capital markets, that public finances are put on a sustainable path and growth is restored and to secure a banking sector that can stand on its own. So this would be beneficial for Ireland to exit.

But of course it also would be a signal to the European partners, especially in those countries where taxpayers provide financial support, that they also can see there is not a bottomless pit, but there can be success, that countries can successfully exit a program. So it's in all sides' interest.

Question: What do you think people on the street will see or feel or notice if we exit a bailout?

Asmussen: This is difficult to say since I know from a number of program countries where I have been very often on the ground in the last years that of course macroeconomic data like reaching a primary surplus or reaching a sustainable debt level are not really someone can feel or touch. So I think the most important indicator what people can feel is when employment starts to grow again because it's mostly jobs that people are in close contact with, less macroeconomic data.

Question: So getting out of the bailout will accelerate our job creation. We've had some job creation in the last 12 months, but it may well accelerate next year if we do succeed?

Asmussen: Yes, that's what I expect. As I said, the developments in your labour market, they were encouraging in the last months. And I would expect positive growth to continue this next year and this should show in the employment data.

Question: Well one of the things that I suppose the Irish authorities are looking for to help ensure that we make this successful exit is what they call a precautionary credit line, which could come from the European Central Bank, of €10 billion, or elsewhere. And the issue about that is whether or not conditions could be attached. Will conditions be attached if we do get a precautionary credit line?

Asmussen: Let me first clarify. The precautionary instrument does exist with the European Stability Mechanism, the ESM or the IMF but not with the ECB. So we are not providing credit lines to countries.

A decision on the possibility of a precautionary follow-up program will have to be taken in the upcoming months. The current full-fledged program ends by the end of this year. And a precautionary program is quite different in nature from a full-fledged program. It only has very limited conditionality. Under normal circumstances it's that one has to fulfil the conditions that were given under the existing Stability and Growth Pact, means the excessive deficit procedure, which is Ireland foreseen to exit in 2015, and, for example, under the country-specific recommendations of the European Commission. So there is, if you might call it, a light-touch conditionality which is normally embedded into standard European procedures. There is not necessarily an additional program conditionality.

Question: So it's not going to be a big burden on us one way or the other if we sign up to whatever light-touch conditions are there?

Asmussen: No. As I said, not necessarily additional conditions because, as a member of the EU and the euro area, Ireland has to respect the Stability and Growth Pact. It has to respect the Macroeconomic Imbalances Procedure. This is true for all member states of the euro area.

Question: Well one of the issues which is being debated at the moment in relation to respecting our commitments and sticking to our targets is the upcoming Irish budget. And a lot of talk about the target for cuts there and for adjustments. €3.1 billion was the target originally set in terms of monetary values. But since the promissory note deal, which enabled us to have a lower repayment schedule and so on, there's extra room for manoeuvre and there's a big debate about maybe we could get away with a lower amount of adjustments in the current budget, possibly €2.5 billion. Does that debate matter to you?

Asmussen: Yes, of course it matters. But Ireland has made really significant progress towards reducing budgetary imbalances and restoring the sustainability of its public finances. And the country lives still in an environment of high government debt. The forecast is 124% of GDP this year. It has a relatively still high fiscal deficit. The planned data is 7.5% this year. So delaying fiscal adjustment is, in my view, a risky strategy. And the achievements achieved so far should not be put at risk. So I would conclude that it's crucial that the authorities stick to the program's objectives, as they have done, really in order to ensure that the country remains on a sustainable path. And I'm confident that the authorities will continue with their strong commitment given the important achievements they really have achieved so far.

Question: Do they have some leeway because of the promissory note deal though?

Asmussen: I do not see a promissory note deal. It was a transaction undertaken by the Irish authorities and the Irish Central Bank, of which the ECB has taken note. I would really suggest to stick to the budget plans for next year and to stick to the figure of €3.1 billion.

Question: Now some people might say to you, when you look at economic growth forecasts, and they are so important in all of this arithmetic really, whatever the economic growth outcome certainly is, but a lot of the forecasts have proved to be too optimistic, that austerity has cost us an awful lot in terms of potential growth, like the targets have not been achieved. And they might say that maybe that would be a reason why, if we didn't go so heavy in the budget, perhaps we could have a stronger growth rate. And that in the end might actually deliver better public finance figures.

Asmussen: Let me first say that I'm not really happy with the use of buzzwords like austerity. Exactly the same thing, it was called two years ago sustainable public finances, not austerity. And it's undisputed that in the short run, if one needs to undergo fiscal consolidation, this is negative for growth. But this is true only in the short run. In the medium term and the longer term, sound public finances together with stable prices are a necessary precondition for growth. So I would say if one has relatively high debt levels, there is simply no alternative, no viable alternative to pursue a sound fiscal policy on the revenue side and especially on the expenditure side.

The major reason for this is an aspect to improve intergenerational equity because the bulk of today's public liabilities, that is true for program countries and non-program countries alike, will need to be honoured by future generations.

Question: So you're saying pay now rather than force people in the future to pay?

Asmussen: There has to be a fair burden sharing between today's generation and future generations. And it's an overall feature across Europe, not only in program countries, that we see especially youth unemployment at unacceptably high levels. One out of four young people in Europe is unemployed. And I think we should be careful not to leave this generation a double burden first that they have no job, and second that they have to repay the debt of their parents.

Question: Well one thing where there is felt to be quite a burden, I suppose, in Ireland is that the Irish government did have to bail out our banks. The term being burnt bondholders effectively in some of the bigger banks, and it didn't happen, now that there's a very big burden there in terms of the debt that we're carrying, and there was hope, and there certainly is a debate that the European stability mechanism could, in the future, invest in those Irish banks, buy some of the bank shares off the government I think is the argument. Legacy debt other people are saying. And some people say that's not going to be allowed. Do you have a view about whether or not in the future the ESM could buy Irish government debt off the government – Irish bank debt?

Asmussen: Yes. The ECB as an institution has no view here because the ESM and its instruments are part of fiscal policy and are therefore governed by the member states. You know the ESM is an intergovernmental instrument. There will be the possibility in the future to directly recapitalise banks via the ESM. This instrument will be available if one leaves aside very rare and unlikely event. Only once the single supervisory mechanism means the European Banking Supervision has become operational in the fall of next year.

As far as I have followed the debate among the member states, where one needs unanimity to reach a decision to deploy such new instrument, there is no majority to

use this instrument retroactively. This is, as I see it, the debate currently among member states.

Question: So the way you look at it is we'd better not hold our breath. It seems unlikely that we will get agreement for investment by the ESM in our legacy bank debt.

Asmussen: As I said, as I observe the situation as it stands currently, I would not see a majority for a retroactive use of the ESM direct banking recapitalisation.

Question: Okay. Well now the issues obviously in terms of banking union are very big for the ECB and what is happening there is very big for the ECB. The clock is ticking. There is a deadline in relation to getting this sorted and a lot of debate. Where are we on that?

Asmussen: I think the whole project of the banking union, including all its elements, that is the biggest integration step in Europe since the introduction of the single currency. So it's really a major project, but it's a key project to complete the yet incomplete monetary and economic union. And here we have made progress. The European parliament has voted last week on the legal base that enables us now to really start preparations for the Single Supervisory Mechanism. We will start this supervision in fall next year. And since we now have a legal base, we really can speed up our preparation. Means, for example, we will start to recruit up to a thousand people in the fall of this year.

A second major element on the banking union is the Single Resolution Mechanism. Here we are—

Question: What does that mean for people in Europe, because it sounds like a very big description? Economists might know what it means. What does Single Resolution Mechanism mean?

Asmussen: It means that you have a framework that enables you to wind down non-viable banks, especially cross-border, inside the common market, without causing shockwaves in the rest of the financial system. And here we have a law-making proposal by the European Commission that is on the table. This is discussed by member states right now and I hope that they can reach an agreement relatively soon that these resolution regimes come into force more or less in parallel with the European Banking Supervision.

Question: There seems to be disagreement, or at least I read disagreement between Germany and the European Union in relation to that mechanism. And which organisations will be involved in deciding which banks are folded?

Asmussen: Yes, this is true. There are quite a number of issues open, but I think they can be resolved in the next weeks to come. There is a dispute about the legal base, for example. The European Commission has proposed to base its proposal on Article 114 of the EU Treaty. And in the view of the Commission, the legal services of the Council and also of the legal services of the ECB, this is a sound and a robust legal base which one can use. This is one area of dispute.

The other one, as you rightly pointed, is who is in the future the resolution agency? Who really can decide what to do with a bank that is not viable, because the division of labour will be like this, that the supervisor indicates in the future that a bank is non-viable and then hands it over to the resolution agency?

Question: It sounds from an Irish point of view that it's an awful pity that these mechanisms weren't in place seven years ago, five years ago even. It's a bit like, I suppose, shutting the door after the horse has bolted, from our point of view. This isn't going to save us.

Asmussen: It's true that today, in the fall of 2013, we have instruments at our disposal which we hadn't in 2007 or 2008. I remember when in 2008, for example, Hypo Real Estate, a relatively large German bank, got into trouble. We faced the same difficulties since banking supervision at that point in time was purely national. So that means the German supervisor had no possibility to see what really happened at the Irish subsidiary of Hypo Real Estate.

Second, all banking rescue schemes at that time, that relates to the German one as well to the Irish one, were purely national. So if there's one lesson to be learnt, that we need European supervision, that we need European resolution because banks operate in the whole common market and we have to put our instruments at the same level as the banks operate.

Question: For people on the ground, for people on the street, Jörg, how do you think they will recognise the difference when the banking union comes into place, or will they recognise it at all?

Asmussen: I think when we have the banking union available, which is, as I said, one of the key elements of a complete monetary union, then we have more policy options at our choice. In the past we only had when a bank was in real trouble two choices, either maybe a disorderly winding down of the bank, which risks financial stability, or a bailout by the taxpayer. In the future we will have more instruments at our disposal. The instrument of bailing in means that we will have rules, which are known ex ante to global investors to show that creditors of a bank in a certain pecking order will pay the burden for winding down in an orderly way the bank. So this is clearly an advantage for every citizen, that taxpayers will not be left alone in the future when one needs money to wind down a bank.

Question: So that will encourage more confidence in the banking system.

Asmussen: In my view, yes, because this kind of system exists in the US for quite some time. And they have been able to wind down banks. Since 2008 they have wound down roughly 480 banks, both the small banks. But they have been able to do this without causing shockwaves to the rest of the financial sector and with minimal cost to the taxpayer. So I think we are on the way to establish a similar framework here in Europe.

Question: Well in Ireland one of the big things which people talk about is a banking enquiry. It's now five years since the collapse of Lehman Brothers. We've passed the anniversary or it's coming up very soon. And we have had no enquiry, no public enquiry here in relation to what has happened. And when people talk about restoring confidence in the banking system, there'll be many people in Ireland who say how can you have confidence when we don't really know what happened, when nobody really has been called to account? What do you think of that?

Asmussen: I must confess that my knowledge about this enquiry committee is limited to newspaper articles that I have read over this. But I personally have a deep understanding that one tries to understand what had happened, why it had happened and what needs to be done to minimise the risk that similar events unfold again. And I think it's key in this project that parliaments play a very crucial role here. So as I said, I lack the detailed knowledge about the Irish situation regarding this. But in principle I very much understand why one is planning to have such an exercise.

Question: Do you think it's important for the public to see that?

Asmussen: Yes, I think it's important that after a major crisis, one tries to understand what happened, why it happened and then draw the right conclusions for the future of this.

Question: One of the big things people are worried about, Jörg, is the unwinding of mortgage arrears in Ireland and the potential for that process to cause instability in relation to the banks again, that the banks may need more capital, that it'll cause all sorts of problems in that regard again. How worried should we be?

Asmussen: I would not be worried. It's indeed necessary that one continues with the banking sector reform in Ireland. This is part of the existing program. But the work clearly goes beyond the program because bank balance sheet repair is a year-long exercise. And here of course the arrears to real estate loans are of specific importance in Ireland. But it is the case that as part of the program there is an ongoing stress test exercise for banks to make sure that banks are well capitalised.

Question: So you think that is all in good hands?

Asmussen: I really have deep trust in the Irish authorities and especially in the supervisor in Ireland, which is the Irish Central Bank, yes.

[rest of the interview not about Ireland]

[...]

Jörg Asmussen, thank you very much.

Asmussen: Thank you.