Benoît Coeuré: Savers aren't losing out

Opinion piece by Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, published in *Handelsblatt* on 11 November 2013.

*   *   *

Complaints about the European Central Bank (ECB) favouring borrowers over savers with its low-interest-rate policy are getting ever louder. In countries such as Germany there is even talk of a "cold expropriation" of those who save money for their old age. I don't think this assumption is appropriate. The current low returns for savers are mainly an ongoing result of the recent deep recession and of the fragmentation of the financial market in the euro area.

Against this background, low interest rates are a tool to maintain price stability. And price stability is a pre-requisite to bring the economy back onto a sustainable growth path. Higher key interest rates would have exacerbated the recession, delayed the recovery and contributed to deflationary risks. Higher interest rates would therefore hurt savers. They are not the losers under the ECB's monetary policy, as many are claiming.

It's true that the ECB's interest rates have never been as low as they are today. The main refinancing rate – the rate at which banks can borrow money over the short term from the central bank and which is perceived by the public as the "key rate" – now stands at 0.25%. What matters more to German savers, however, is that interest rates for long-term investments that are considered safe have fallen to their lowest level since the establishment of the monetary union. Investors in ten-year German bonds currently get an interest rate of around 1.76%. The main reason for this is that because of the European sovereign debt crisis investors prefer investments which they consider to be particularly safe. In the end, it can be said that the ECB with its monetary policy has, above all, kept the interest rate low for very short-term loans. But the returns on longer-term investments considered safe have fallen so much primarily as a result of the increased demand.

There remains the question of whether the key rates in the euro area are unreasonably low. What would be the level if interest rates could freely form on the market, without monetary policy intervention? This so-called "natural" interest rate would fall in a shrinking economy over a prolonged period and rise again during a recovery. Because a recession allows the expected yields to decline the returns fall in almost all forms of investment. At the same time, in periods of uncertainty, people want to save. Then there is significantly more liquidity available overall than is sought for investment. And interest rates come under pressure. In other words, in those circumstances the remaining borrowers who are willing to invest would benefit from the situation, while savers would suffer from falling interest rates.

This finding corresponds to a remarkable extent to the development we have seen in recent years. With higher interest rates savers would not have been favoured, as those rates would have contributed to downward risks to price stability, deepened the recession and endangered jobs in Germany as well. And if you are jobless you can hardly save for your old age.

In the current environment, a more expansionary monetary policy is thus the necessary reaction of the central bank to maintain price stability. The ECB's monetary policy, which will always rigorously fight inflation that is too high or too low, is therefore appropriate.

The prosperity of savers in Germany in the future depends mainly on the success of reform efforts at the political level throughout the euro area.

Because – as I said – if the interest rates for savers in Germany are in part so low, it's because German government bonds are in demand. Other countries in the euro area, however, can only place their securities with investors at relatively high interest rates. Although monetary policy can reduce this fragmentation of the markets in the euro area, it cannot completely eliminate it. This can only be done at the political level. Europe has to establish a functioning banking union which restores the confidence of markets and savers in all credit institutions. The countries have to return to a sustainable fiscal policy and make efforts to create growth. And then the savings of Germans will earn higher interest rates again.