Benoît Coeuré: Interview in *Die Zeit*

Interview with Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, in *Die Zeit*, conducted by Mr Mark Schieritz and published on 9 December 2013.

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Mr Cœuré, do you know what the interest rate on savings accounts in Germany is?

Very low, probably close to 0%.

That's correct. Some banks pay 0.25% or even less. Can you relate to savers in Germany being annoyed that the European Central Bank (ECB) is making them foot the bill for the crisis?

Rates are very low because the euro area economy is weak. Take the example of low long-term interest rates on German government bonds, which are important for life insurance contracts and pensions.

Why exactly is the weak economy responsible for low rates?

If growth is weak, there are few profitable investment opportunities. As savings need to be invested in order to achieve returns, this means that returns are low. Low market rates also, however, create the conditions for new growth and this will also boost future returns on savings.

So you are saying that German savers benefit from the ECB's low rates?

My message is: it is important to differentiate between long-term rates for savers and the policy rate of the ECB. Long-term rates are low because the economy is weak. In such circumstances, the ECB has to set its policy rate in such a way as to ensure price stability. Thereby we support the economy and create the conditions for profitable investment opportunities – and this is also of benefit to German savers.

So what would you say to Germans who are worried about their retirement provision?

I would tell them that the best way to improve the return on their savings is for the crisis to be solved as quickly as possible. This means that the economic reforms have to be implemented in the stressed countries, but it also means that we have to complete the measures designed to make the euro area as a whole safer. We need, above all, a functioning banking union so that German government bonds are not the only safe haven assets in the euro area anymore.

If Germany still had the Deutsche Mark, interest rates would be higher.

I don't want to speculate on hypothetical issues. Our currency is the euro. But look at Switzerland: the country has its own currency and interest rates are extremely low nevertheless, namely because investors consider it a safe haven like Germany.

You mentioned price stability. Inflation is currently very low. Where's the harm in that?

It is, above all, a question of confidence. The ECB is committed to maintaining price stability, by which we mean keeping inflation below, but close to, 2% – and we have achieved this objective. Average inflation since the introduction of the euro is 2.03%. This has contributed to economic stability in Europe. If we were to miss our objective, people would start to question our commitment. That also holds if we were to tolerate inflation rates that were too low. We cannot risk such a loss of confidence.

The main reason for the current low level of inflation is price and cost adjustment in the crisis countries, thereby enabling these countries to become more competitive.

It is good that the economies needing to regain competitiveness adjust. But the adjustment is much easier if inflation in the euro area as a whole stands at 2%, rather than, say, 1%.

Why?

We know from experience that, at least in Europe, it is very difficult to cut nominal wages. If prices are rising, you get the desired effect – the cost of labour declines in real terms – just by holding nominal wages constant. This is why there is no major central bank in the world that seeks to eliminate inflation completely. Inflation should be at a low, but positive level.

The inflation rate in the euro area is currently at 0.9%. If we take you at your word, the ECB is in fact not doing its job.

It is true that, as a result of the weak economy, there is little scope for prices to increase. But we expect the rate of inflation to come back to 2% over the medium term.

According to your staff projections, inflation will be below the target until 2015. What do you mean by medium term?

We are not giving a more precise time frame, but we are certainly not talking about a decade or a generation.

If the countries in the south have lower inflation rates and the ECB wants to keep overall inflation at 2%, then that means logically that Germany has to accept higher inflation.

It is not a goal of our policy to artificially increase inflation in Germany. But if the German economy keeps doing well, and wages increase, inflation will naturally also increase somewhat. That is a result of market decisions. What is important for us is that average inflation in the euro area as a whole returns to our objective.

And what if it does not?

We cut interest rates last month because we came to the conclusion that inflation would stay below target for too long. Looking ahead, if we come to the conclusion that this remains the case, we would have to act again. This is not our scenario at this stage, however. We are confident that inflation will gradually come back to 2%, mainly because the euro area economy will come out of recession. But of course we have to monitor the situation very carefully. I do not want to rule out further steps.

Interest rates are already close to zero. What could you do?

There are a number of things we could do. We could cut interest rates again, by, say, moving the deposit rate into negative territory, and we could provide additional liquidity to the banking sector. Which of these options – if any – we will use depends on the economic developments. We could also combine these measures.

As for the crisis in Europe, would you say that the worst is over?

I would say that the worst of the financial crisis in a narrow sense is over. The main task of European authorities this year and last year was to stabilise financial markets. This has been largely successful: markets are much calmer and have more confidence in European recovery now. The main task next year will be to get the economy going.

Some people in Germany say that France, your home country, is the biggest risk for the Monetary Union.

I would certainly not call France a risk in terms of financial stability. The French financial and banking system is resilient. There is currently no danger whatsoever that the country may lose access to financial markets. The problem is that growth could remain weak if reforms are not taken forward. Companies have to increase their competitiveness and the government has to get the budget under control by cutting public spending.