Sabine Lautenschläger: Interview in *Der Spiegel*

Interview with Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, in *Der Spiegel*, conducted by Mr Michael Sauga on 7 January 2015 and published on 10 January 2015.

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Mario Draghi, the President of the European Central Bank, intends to undertake large-scale purchases of European government bonds in order to counter the rate of inflation in the euro area. Will you agree to that?

Inflation in the euro area has been below the targeted rate of just under 2% for quite some time now, and forecasts for the next few months predict little change. That is why it has been, and continues to be, right and proper for the ECB to discuss appropriate countermeasures. However, I am currently not convinced by large-scale purchases of government bonds.

Why not?

In monetary policy-making, I regard purchases of government bonds as the last resort. In this context, the peculiarities of the euro area as a currency area encompassing 19 sovereign states must be taken into account. There must a threat of exceptional risks materialising, and there must be reasonable balance between the benefits of, and risks entailed in, such a programme. I do not believe that to be the case at present. What we should do instead is wait until the measures that we have put into place only recently can take full effect.

Despite these measures, which include the negative interest rate on deposits and purchases of securitised private sector credit, December for the first time saw inflation in the euro area drop to below zero. Many economists are warning of deflation such as that experienced by the global economy in the 1930s when consumers no longer wanted to buy anything because they all expected prices to continue to fall. Isn't that reason enough for decisive intervention?

I don't want to gloss over the situation, but you can't speak of deflation at the moment. What we are observing is a persistently low inflation rate that is due, among other factors, to the fact that prices of energy and food have declined significantly. At the moment, however, I cannot see any signs of consumers expecting steadily falling prices and thus changing their spending patterns.

The purchases of government bonds are intended not only to raise the rate of inflation, but also to encourage banks, in particular those in southern Europe, to again extend more loans to the corporate sector. Can that work?

I have my doubts in that respect. Credit institutions in southern Europe are currently not suffering from a lack of liquidity. The European Central Bank has ensured that through a number measures over past months. Rather, many banks are hesitant in extending loans because they believe that there is too great a risk that debtors will not be able to redeem them. I do not expect that the ECB purchasing government bonds on a large scale would change that in a sustained manner. Instead, banks must again be in a position to see that their borrowers have decent economic prospects.

How could that be brought about?

Above all, national governments could contribute to this goal by implementing effective structural reforms to improve the competitiveness of industry. If a company is competitive, it has a future, the risk of default is lower and banks extend loans with lower risk margins.

Draghi's reasoning is different. He wants to boost economic activity by using the purchase programme to bring interest rates in the crisis countries down still further.

Interest rates are already very low. In Italy and Spain, for instance, the yields on ten-year government bonds are just below the yield on comparable US bonds. How much more should yields decline and how large must a programme be to achieve such a decline? In addition, I am asking myself whether, by forcing yields down further, we would not encourage governments to increase their debt again, instead of focusing on sustainable budgetary and economic policies. That would be the exact opposite of what is necessary.

The Federal Reserve System, too, has bought government bonds for trillions of dollars in recent years – and was successful. Does that not give you reason to rethink?

The comparison with the Fed is misleading because we have a different economic and political set-up in the euro area. Moreover, the bond purchases undertaken by the Fed were particularly successful as long as the yields on government bonds were still comparatively high, i.e. immediately after the major financial crisis in 2008. In Europe, the yields on government bonds are comparatively low even today.

Doubts similar to yours have also been expressed by Jens Weidmann, President of the Bundesbank. In the Governing Council, however, there is a majority in favour of the plans announced by Draghi. Do you not fear that the German representatives at the ECB are yet again adopting a dangerous minority position?

There is little point, in my view, to speculate about majorities in the Governing Council before the discussion of the design of a purchase programme has even taken place. Moreover, this is not about German positions. The only issue that is crucial for me is whether large-scale government bond purchases are appropriate for our currency area and whether the benefits are greater than the risks. And I am sceptical about that.