Peter Praet: Interview in *Les Echos*

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in *Les Echos,* conducted by Ms Isabelle Couet on 2 February 2015 and published on 5 February 2015.

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The Greek finance minister came to the ECB yesterday. What do you think of his proposals and what are the margins for negotiation?

The ECB is not involved in the discussions between Greece and its creditors. We hold Greek government bonds, bought on the secondary market to improve the transmission of our monetary policy decisions. But the ECB's position is clear: the Treaty does not allow us to take any decision which would entail funding a government through monetary policy.

Are Greek banks in danger? What conditions do they need to meet in order to keep their access to ECB liquidity?

The conditions for access to ECB liquidity are clear and published on the ECB website, accessible to everyone. We are transparent about our rules. If the conditions are no longer met, the ECB has to decide on the consequences.

How do you envisage the future of the ECB within the Troika?

The ECB has been led to assume a role that has put a lot of pressure on the institution. We have lived up to our responsibility to ensure that our monetary policy can work. It was a question of stepping into the breach, as Europe did not have the appropriate institutions. But that doesn't mean that we are satisfied with the situation as it stands.

With regard to the economy, at –0.6%, inflation is sinking into negative territory. Has the ECB failed to fulfil its mandate?

It is true that there is a heightened risk of too prolonged a period of low inflation. We have deferred the point in time when we expect a return to inflation of below, but close to, 2% in the medium term, which is our monetary policy objective. And precisely in order to fulfil our mandate, we took a number of important monetary policy decisions, in particular the expanded asset purchase programme announced in January. If the ECB hadn't done what was necessary since 2007, we would today be in the midst of a great depression. This is not the case. And neither has the deflationary scenario materialised. We have never stopped being vigilant and taking the necessary decisions.

Regarding the launch of quantitative easing (QE), why do you think that this tool will really support the economy?

Because the programme comes at the right time. We are seeing the first signs of an improvement in financial conditions in the euro area, which suggests that QE will be able to bear fruit, particularly via the credit channel. The latest indicators of monetary growth show that we are definitely at a turning point and that outstanding credit should start to rise again. For its part, the most recent survey of banks conveyed more optimism as far as demand is concerned. There are also signs of an improvement in consumption as it benefits from conducive structural reforms. Another positive development is that we have witnessed a reduction in lending rates to small and medium-sized enterprises, which has been especially noticeable in the most fragile countries (Greece, Ireland, Italy, Portugal and Spain) since September. Then there is the decline in the euro and the fact that the fiscal policies of the euro area are becoming more neutral overall. Lastly, the fall in the oil price and, of course, our monetary policy decisions themselves will contribute to this positive demand shock. All of this is helpful.

So, it could be argued that there was no urgent need to launch this programme?

On the contrary, it was imperative to act to prevent inflation expectations from becoming unanchored. It was a distinct possibility, considering the fall in oil prices. By launching QE now, we aim to anchor inflation expectations.

But the indicators of expected inflation have not reacted to the ECB's announcements …

It's normal for it to take a little time. It's not an exact science, but the context should be favourable, and although I remain cautious, I am confident. Everybody should make the most of this opportunity to give growth a further boost, each in his or her field of responsibility.

Will QE be good for banks?

In terms of the lending conditions offered, banks are now lagging slightly behind demand. There are those that claim our financial asset purchase programme will further reduce their margins, while some financial institutions already lament the strong competitive pressure and complain of regulatory burdens. Yet, the announcement on QE drove banking sector share prices higher. At the same time, we should be especially mindful that this sector will inevitably benefit from the economic recovery.

Is there a risk that financial institutions may resist and not sell the bonds they hold at the ECB?

Banks can realise a capital gain on the sale of their government bonds and, in doing so, bolster their capital position and therefore their capacity to extend loans. In the case of insurance companies, the situation is not as clear cut, especially if they've already used all their scope for diversification towards assets with a higher risk profile than sovereign debt.

Has the ECB entered into an exchange rate war by launching a programme that puts pressure on its currency?

No. The exchange rate is not an objective of our monetary policy. Our objective is to maintain price stability over the medium term. Right now that means avoiding inflation staying too low for too long. The level of the euro depends on a number of factors, including the monetary policy decisions of the ECB, but also those of other countries, in particular those of the US Federal Reserve. But it seems to me that the exchange rate now reflects the economic divergence that exists between the United States and the euro area better than it did before.

Has the ECB exhausted its options with QE?

No, the central bank would still be able to act should that turn out to be necessary. But let's not talk about new measures when a programme involving monthly purchases of €60 billion is about to get under way and many conditions are in place for it to be effective.

Are you satisfied with the risk-sharing solution that has been found?

Yes, I am. Whatever people say, since the liquidity injections will happen at the right time and will benefit the economy, the debate on loss-sharing ought to remain theoretical. The most important thing will have been to avoid being paralysed by this debate when taking our monetary policy measures. Finding a lasting solution to this thorny question is outside our remit. It would involve putting in place a fiscal union at the political level, which is a task that lies ahead.