Peter Praet: Interview in NRC *Handelsblad*

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in *NRC Handelsblad*, conducted by Mr Mark Beunderman and published on 30 January 2016.

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The ECB began its quantitative easing programme in March 2015. What would the euro area look like now if the ECB had not done anything then?

The decision to buy sovereign debt came on top of the support measures for banks that we had previously put in place. These were successful. Lending began to pick up. But in 2014, after two consecutive recessions, the recovery was losing momentum. It was a risky situation. That's when we intervened. With quantitative easing, the financial situation in the euro area has become more favourable: banks have resumed lending. So it's fair to say that it's working. And that was unanimously acknowledged by the ECB's Governing Council this month. In countries such as Spain and Italy in particular, financial conditions have improved. The programme is clearly having a positive effect on economic growth and inflation. All of the measures together have prevented a meltdown of the euro area.

But isn't the ECB's Governing Council divided on quantitative easing? The Dutch and German members expressed resistance in January 2015 and again in December.

No one on the Governing Council denies that bond purchases have a positive influence on financial conditions. And the Governing Council agrees unanimously that, in principle, bond purchases fall within the ECB's mandate. But some members think that they may only be used in absolute emergencies. There is also debate as to how long it will take for them to have an impact on inflation. Moreover, some are of the opinion that bond purchases make governments less inclined to carry out fiscal and structural reforms themselves.

That is how Klaas Knot sees it.

I am also concerned about the lack of further reforms in euro area countries, even though much has already been done. But I strongly oppose the view that the central bank should stand passively by if governments are not doing enough. We are acting in accordance with our mandate. And governments would probably have done even less, while things were falling apart. We have not only given them time to pursue reforms, but also – in a time of uncertainty about the banking sector – to set up European banking supervision.

If there is enough pressure from the markets – if, say, sovereign bond yields are rising – then aren't countries quicker to implement reforms?

Market discipline is indeed important. But the crisis has again shown that markets can rush from exuberant optimism to extreme pessimism, often reacting late and abruptly too.

You say that crisis countries have benefited from the ECB's support programmes. But what good are they to a country such as the Netherlands?

The euro area countries are strongly interdependent. The fragility of your neighbours also affects you. People in the Netherlands, or in Germany, should not forget that. And the Netherlands, too, would have been very severely hit if the ECB had not intervened in 2012 when the euro was under threat. But one size cannot always fit all. In some countries, financial conditions were very poor; in other countries, monetary stimulus may not have been as necessary. But our mandate is to contribute to the price stability of the entire euro area. That is also in the Netherlands' national interest.

But the ECB's low interest rate policy also has a destabilising effect. The European Insurance and Occupational Pensions Authority (EIOPA) warned last week that the capital position of Dutch pension funds was under pressure from low interest rates.

A far more serious destabilising factor, for society as a whole, would be an economic depression. Long-term interest rates have been declining for around 20 years. After all, the low interest rates reflect economic fundamentals such as demographic factors and productivity and cannot be solely attributed to the policy of the central bank which mainly needs to make sure that inflation expectations are well anchored.

Monetary policy always has a redistributive impact, which can be adjusted by the state if need be. A frequently-heard complaint in Germany is that savers are worse off. Those who also have every right to complain are those who lose their job because the economy is too weak owing to inadequate policies.

Can the ECB afford to run counter to the ideas on monetary policy in the largest country in the euro area, Germany?

We look at the whole euro area and we are not here to represent particular countries. We are aware of the objections in some countries. Of course you have to take them into account and properly explain that we are acting in order to respect our mandate. That is admittedly rather difficult.

At the meeting in January, ECB President Mario Draghi hinted at even more monetary stimulus. Why do we need even more?

He said that the ECB will review and possibly reconsider its monetary policy stance. The economic recovery is still vulnerable; it is cyclical and not genuinely structural. New risks have arisen, such as the growth slowdown in emerging countries. And inflation expectations are still markedly disappointing.

Will there already be new measures in March?

We are closely monitoring the economic data. The tone in the Governing Council's statement is one of alertness.

The inflation rate remains well below the ECB's official target: below, but close to 2% over the medium term. Shouldn't the inflation target be adjusted?

Definitely not! We are determined to reach our objective. Moreover, adjusting one's objective precisely when it is more difficult to achieve would completely undermine the ECB's credibility. The rate of 2% is a medium-term objective. It is not linked to a fixed date. It depends, among other things, on the nature and frequency of economic shocks and how they pass through and influence inflation expectations. If inflation expectations come under too much pressure, you have to intervene.

Many people say: isn't low inflation a good thing? Surely it means I can buy more? Yes, if you have a job. But many people are out of work. You also often hear that low inflation is caused by the low oil prices. However, low oil prices for an important part stem from a decline in global demand. So the current low rate of inflation is also a reflection of some economic weakness.