Benoît Cœuré: People are not only savers

Opinion piece from Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, for the Frankfurter Allgemeine Sonntagszeitung, 1 May 2016.

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Is the ECB stubborn because we are adhering to our monetary policy despite strong criticism? No. We are complying with a precise task that was conferred on us. The EU treaties gave the ECB a narrow price stability mandate. In 2003 the ECB's Governing Council clarified that euro area inflation should be below, but close to, 2% over the medium term. This interpretation has not changed since. To pursue this deliberately narrow objective, the ECB has been given a great amount of independence, building on the successful experience of the Deutsche Bundesbank. This focus is in line with the economic concept of "monetary dominance". To ensure this, central banks must be assigned a well-defined objective. They must also be granted sufficient discretion when determining and carrying out their measures.

Monetary dominance implies that in carrying out its mandate a central bank may not make itself dependent on the specific decisions of other institutions. A fundamental assumption underlying European monetary union is therefore that different institutions must act independently within their mandates.

Several times in the past, the ECB faced the risk of inflation remaining high for too long in an environment of expansionary economic policies. Did we wait for other authorities to take measures before raising interest rates? No, and rightly so. Similar considerations apply to the current environment. At present, inflation in the euro area is around 0% and is expected to remain low for a considerable period of time. In this environment, we had to act decisively and provide significant monetary stimulus through a set of measures which were carefully prepared and discussed by the Governing Council. Our latest package, with its increased size of purchase volumes and its emphasis on credit to households and companies, is proving effective, as recently confirmed by our bank lending survey and, more generally, by the recovery of economic activity throughout the euro area.

We are confident that our measures will bring inflation back on a sustainable path consistent with our objective of price stability. However, there are compelling reasons to suggest that inflation in the euro area will go up only gradually. They include a legacy of private and public debt that was too high, which led to a fall in economic activity and an increase in unemployment. More recently, global developments which are having a negative impact on inflation have added to this.

But even under a very flexible interpretation of our medium-term inflation objective, I am convinced that not acting would have meant failing in our mandate. Without our measures, current inflation would be much lower and the inflation outlook would be much worse. Moreover, economic activity would be subdued, there would be fewer jobs, and a sound public budget would be more difficult to achieve, even in Germany.

Silently giving up on the commonly agreed inflation objective, which has served the ECB well for the last 13 years, is not an option. This would make our monetary policy less credible and would in itself create instability. We shouldn't return to a policy that constantly redefines monetary policy objectives on the basis of short-term considerations.

In a monetary union, the single monetary policy, through its focus on stable prices, acts as the indispensable anchor to a range of economic policy decisions established at national and regional level. This makes keeping a steady hand in monetary policy particularly important. De-anchoring inflation expectations would be a source of instability in its own right. This would be counterproductive at a time when Europe is already confronted with so many challenges.

This principle of stability needs to prevail over the often one-dimensional and short-sighted criticism of the ECB's measures expressed in various places. In Germany, the ECB has recently been repeatedly criticised for hurting savers through the currently very low interest rates. But people are not just savers – they are also employees, taxpayers and borrowers, as such benefiting from the low level of interest rates. Thanks to improved economic conditions, stimulated not least by monetary policy, real income and employment in Germany have increased in recent years. In other words, we need low interest rates now to ensure a normalisation of economic conditions, including higher returns on savings in the future.

The origins of the current worldwide low level of interest rates are not only monetary, however. The euro area, for example, generates excess savings of over 3% of its GDP. In conjunction with other factors, this export of savings adds at a global level to the downward pressure on interest rates. In other words, low interest rates are a symptom of macroeconomic interdependencies and measures which go well beyond monetary policy.

Certainly, monetary policy would become more effective if other euro area policy areas did more to generate stable and sustainable growth, embedded in a credible set of rules.

The ***first set of measures*** should therefore create the conditions for sustainable growth in the respective Member States. This starts by enforcing the commonly agreed fiscal rules, using exsiting fiscal space . And in all countries, budgets should be made more growth-friendly, for instance by redirecting spending to research and education and lowering the charges on labour. Furthermore, growth-enhancing structural reforms are important. The rate of implementation of the EU country-specific recommendations is dismal, and the Macroeconomic Imbalance Procedure is hardly being used. But making Europe credible starts with delivering on what has already been agreed.

The ***second package of measures*** concern what can be done collectively by euro area countries to strengthen the foundations of our single currency. An improved governance structure is needed to rule out the possibility of the euro area gradually sliding into a regime of fiscal or financial dominance. Or even worse, a combination of the two if we don't find a clear solution to the infamous sovereign-bank nexus. We must consistently guard against such developments. The priority must therefore be to complete the banking union and to establish the capital markets union, as well as regulatory clarity on how to avoid excessive risk concentration on banks' balance sheets. Deeper institutional changes can be considered in the longer term, as proposed in the Five Presidents' Report in 2015.

These are the conditions for stable growth in a stable environment. This will unleash the investment which our continent needs to lift its long-term growth rate and secure its future. This is the best conceivable way to support Europe's savers. In order to guarantee this, the ECB's monetary policy will remain committed to its price stability objective.