

Mario Draghi: Interview in Süddeutsche Zeitung

Interview with Mr Mario Draghi, President of the European Central Bank, in Süddeutsche Zeitung, conducted by Mr Alexander Hagelüken and Mr Markus Zydra on 11 September 2012, published on 14 September 2012.

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SZ: After the decision to buy bonds of troubled euro area countries without any limitations, did fellow Italians congratulate you for opening up the wallets of taxpayers in Germany and other countries?

Draghi: No! Actually, the reactions were diverse. In parts of Germany, the echo was negative; in parts of southern Europe, it was not entirely positive either, because of the strict and effective conditionality. The rest of the world complimented us.

SZ: The Secretary General of the conservative CSU has called you a “forger of coins”.

Draghi: I trust that he will change his opinion, when he sees the results. There have already been positive results. The announcement of the facility has contributed to raising confidence in the euro area, and in the euro across the world. Fund managers are bringing their money back to Europe. This is good for the euro area economy.

SZ: Are you really optimistic that the euro area debt crisis will be resolved?

Draghi: We are certainly on a good path. We see extraordinary progress in reforms in Spain and Italy, particularly if you consider what they have done over the last six months in comparison with what they did not do for many years. The direction of policies in many countries was flawed and needed to be corrected. This process is currently under way. But much still needs to be done. And this is also why adherence to strict and effective conditionality is a prerequisite for the Governing Council to consider outright monetary transactions.

SZ: Many Germans fear the risk of a central bank spending money on an unprecedented scale.

Draghi: What was the situation? The risk of self-fulfilling prophecies was increasing: rising sovereign bond yields were seen as aggravating the situation, which was driving yields even higher. There was a risk of a vicious circle that warranted central bank action because good economic policies alone may not necessarily be enough for countries to free themselves from what we call a “bad equilibrium”.

SZ: To a lot of people, “unlimited bond buying” sounds like unlimited risk that they will have to pay for sooner or later.

Draghi: The obligations that the countries have to meet are the best insurance against risk. The risks are well managed. And, in our assessment, doing nothing poses even greater risks.

SZ: If a country defaults on its bonds, the ECB and thus the tax payers lose a lot of money.

Draghi: This is why conditionality is so important. Moreover, the Outright Monetary Transactions will focus only on the shorter term, in particular on bonds with a maturity of one to three years.

SZ: But 42% of the German population distrust you as the ECB’s President.

Draghi: That is a hindrance for our work. I will have to do more to explain our actions. We will start with this interview. But you always have to weigh the options.

SZ: Which are?

Draghi: Of course, you could say “Nein zu allem”, but that is not constructive. For example, if we had not decided to conduct the longer-term refinancing operations (LTROs), we would have seen a severe credit crunch across large parts of the euro area. Under such conditions, and I have said this time and again, we would not be able to deliver what everybody expects us to deliver: price stability over the medium term. So, we have to help avoid such conditions.

SZ: How serious is your threat? It is hard to believe that you would stop buying bonds and let Spain or Italy plunge into disaster.

Draghi: If a given country does not comply with conditionality, the ECB cannot improve the monetary policy transmission in that country. Any attempt to do so in such a situation would be ineffective because it would be offset by the country’s policy failure.

SZ: Why didn’t you make it mandatory that ESM/EFSF first buy bonds on the primary market before the ECB steps in?

Draghi: The key for us is strict conditionality and effective monitoring. The possibility of primary market purchases by the EFSF/ESM should be sufficient to ensure that.

SZ: Can the euro area now be saved after the ruling of the German constitutional court on the ESM?

Draghi: The ESM is an important measure in the crisis management toolbox. However, coping with the crisis does not depend only on having a stabilisation mechanism in place; in particular, we need determined actions at the level of individual Member States. And, collectively, Member States have to complete Economic and Monetary Union. We at the ECB will conduct monetary policy independently so as to safeguard price stability.

SZ: You keep saying the euro is irreversible. Mr Draghi, you speak like the Chancellor of Europe.

Draghi: I am communicating this message as the President of the ECB to all stakeholders, citizens, businesses and markets. Investors need a long-term vision because they undertake long-term commitments. For them, it is very important that our leaders and governments are determined to keep the euro irreversible. So, if I say this, I am saying what our political leaders are fundamentally saying.

SZ: So you are covering up the failure of politics?

Draghi: Again, I am saying it because it is important to do so. Markets should know that the euro is irreversible. That helps them to properly price euro area assets and it helps us in the conduct of our monetary policy.

SZ: Have you ever wanted to become a politician?

Draghi (laughs): No.

SZ: Why not?

Draghi: Because you do the things you like to do.

SZ: Before us, you had a visit from the Greek Prime Minister, Antonis Samaras. Greece has not met the deficit limit of 3% of GDP even once. How can such a country stay in the euro area?

Draghi: By changing. The country has to fundamentally change its policies. And this is what everybody is telling them to do.

SZ: But Greece is seeking further help, after all the help it has already received. It is said that Samaras wants a cut on the billions of euro due on the Greek bonds the ECB holds.

Draghi: We haven’t discussed this, but – anyway – I’m against it.

SZ: Your new bond purchasing programme reminds us of Italy in the 1970s, when the central bank helped the state out in its financing, which only increased the problems.

Draghi: That was something completely different. It took place decades ago, when the Italian central bank wasn't independent from the state. In Italy things have changed completely since then. Banca d'Italia has now been independent for decades, and has not financed any government deficit. We have to move away from clichés of the past if we want to address the future!

SZ: The Bundesbank has a different view: Jens Weidmann fears that the ECB's monetary policy is financing fiscal deficits.

Draghi: No, the Governing Council disagreed with that view. What has been decided is a monetary policy measure. There is a fundamental difference between buying on the primary market, which is forbidden because the money would go to the government, and buying on the secondary market where the money does not go to the government but to bond holders. Article 18 of the Statute states that the ECB may "buy and sell [...] marketable instruments" as part of its mandate, if necessary to achieve price stability, of course always respecting the Treaty's Article 123 on the prohibition of monetary financing.

SZ: Where does the German opposition come from?

Draghi: It comes from the history of the country and the fear of inflation. But it has to be clear that in the case of EFSF/ESM support, the parliaments of the euro area countries will be involved.

SZ: But the parliaments do not decide on the amounts that the ECB is going to risk ...

Draghi: No, because monetary policy has to remain independent, and it is a prerequisite for the Governing Council to consider the specific monetary policy measures.

SZ: Many Germans were against the euro, because they had doubts about the economic policies of countries like Greece or Italy. Now they feel that they were right.

Draghi: The euro has delivered price stability to an entire continent. It has removed exchange rate risk, fostered economic cohesion, employment and growth. Germany has benefited greatly from all these accomplishments, as well as from price stability that is greater than in the years before the euro.

SZ: The ECB will be getting even more power by supervising the European banking industry. So, will the ECB always bail out ailing banks by printing money?

Draghi: No, we have to organise ourselves and keep banking supervision and monetary policy strictly separate. This has been done in many central banks. We are not mixing anything; fundamentally, there will be a Chinese wall.

SZ: Chinese walls in regular banks have collapsed.

Draghi: Not in central banks.

SZ: How can the ECB do a better job than the German Bafin?

Draghi: It is not about doing a better job; it is about making sure that uniform supervisory practices are applied across the whole single currency area. The more detached you are from national government, the more objective you will be in your decision-making. We don't want to control every small bank directly; we will work together with national supervisors.

SZ: According to the plans, the ECB will have to report on its supervision business to the European Parliament once a year. Is that enough?

Draghi: We surely need substantial democratic accountability here, and it is up to the legislators to establish what they consider necessary.

SZ: Do you personally know people who have suffered from the euro crisis?

Draghi: I have visited many SMEs whose credit was cut in the crisis and who have gone out of business. And I am not talking about only Italian businesses.

SZ: How uncomfortable do you feel in the country of the Bundesbank?

Draghi: I have often said that the Bundesbank is a great institution, and I respect it very much. It would be great if we could always work together. We have done that many times, but at the moment, we have different opinions on the best way to react to the crisis. We all share the same objective of delivering on price stability, but we are not in full agreement about the best way to achieve that.

SZ: And the German people?

Draghi: We need to explain what we do better in Germany, which our intentions are and what precautions we are taking.

SZ: You could speak to the Bundestag.

Draghi: It would be an opportunity to explain what we do in greater detail. If I am invited, I would be very happy to go there.