

## **Jens Weidmann: “There is no point in trying to dress up the facts”**

Interview with Dr Jens Weidmann, President of the Deutsche Bundesbank, in the *Neue Zürcher Zeitung*, published on 26 September 2012.

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In an interview with *Neue Zürcher Zeitung*, Bundesbank President Dr Jens Weidmann explains why he was the only member of the ECB Governing Council to vote against the new bond purchase programme. He raises his concerns about monetary policy taking on fiscal tasks and draws conclusions for his own position.

***At Spain’s bond auction last week, the yield on its ten-year government bonds stood at 5.66%, compared with 6.65% before the ECB announced its new government bond purchase programme. Is the new programme such a success that it is already having an impact before it has even been implemented?***

The announcement has of course affected the markets; other measures have had a similar impact in the past. No one would dispute that a central bank can temporarily influence yields by announcing its intention to intervene in the markets. But we cannot measure the success of central bank policy by short-term reactions on the markets.

***You were the only member of the ECB Governing Council to vote against the new programme. In the past it seemed that several other members of the Governing Council were also sceptical of government bond purchases. What changed their minds – suddenly leaving you in a minority of one?***

I’m sure I’m not the only member of the Governing Council who has misgivings about setting up a government bond purchase programme. Although most Council members backed the programme, I have the impression that some of my colleagues share my concerns.

***Did you vote against the government bond programme on principle or because you believe that it simply won’t work?***

I see a number of arguments against the programme. They include stability policy principles and the question of whether the central bank has a democratic mandate for a measure of this kind. The programme spreads liability risk among euro-area taxpayers. That is something only parliaments are allowed to do, and the rescue packages are the right tools for the job. Central bank funding must not become entrenched as a catch-all solution to all our woes. And then there’s the question of whether the programme ultimately does more harm than good. If central bank assistance eases the pressure on politicians to push ahead with reforms, that could hinder and delay the process of overcoming the crisis.

***And that, in turn, undermines the credibility of monetary policy.***

If the central bank moves into that kind of territory, it could become ensnared by its own policy and forfeit some of its credibility.

***Why were you unable to convince the other Governing Council members with those arguments?***

Most of my colleagues were evidently convinced that these concerns, while justified, could be addressed by designing the programme appropriately. They certainly did take my arguments and concerns on board – even though my overall assessment of the programme still ultimately differs from theirs.

***ECB President Mario Draghi has cited disruptions in monetary policy transmission as the reason for setting up the new programme. That does indeed seem to be a problem; the ECB’s most recent interest rate cut failed to reach some euro-area countries. Do you also believe that there are disruptions in the monetary policy transmission mechanism?***

We have been hearing that argument ever since the first government bond programme was launched in 2010, and yet we are still talking about disruptions in the transmission mechanism today. So my question is: faced with structural problems such as a lack of competitiveness and a loss of confidence in some countries' public finances, are government bond purchases really the right tool for repairing the monetary policy transmission mechanism?

***But you agree with the diagnosis?***

Our monetary stimuli are still being transmitted, but our monetary policy is not currently reaching all euro-area countries in equal measure. That fact is connected, not least, with the lack of credit demand in some countries and the deleveraging process in their banking systems. Yet these adjustments are all appropriate and necessary to enable these economies to stand on their own two feet again.

***Do government bond risk premiums actually reflect the fundamentals at all any more or are they partly down to the irrationality of the markets?***

Ideas about what is a fair interest rate level based on the fundamentals differ very widely and have a large subjective component. However, I wouldn't say that the markets' actions are completely irrational at present; they are based on concerns that the reforms in some countries could grind to a halt. These reforms and, above all, the question of whether they will actually be pursued in the future have a major impact on the growth outlook and thus also on credit risk.

***So it would be best for the ECB to do nothing, to simply wait for the storm to pass?***

Not making government bond purchases certainly wouldn't imply that the Eurosystem was merely waiting for the storm to pass. In fact we have already done a great deal: the interest rates are at a historic low, the banks have access to unlimited liquidity, the collateral regime has been loosened several times, the ECB has already purchased government bonds and covered bonds. The Eurosystem has taken a whole range of steps, but we must not ask too much of monetary policy.

***ECB President Mario Draghi has said explicitly that the euro is irreversible and ruled out a return to the drachma or the lira. Is it the ECB's job to maintain the euro area and the euro in their current form?***

Our job is to maintain the euro as a stable currency within our mandate. We cannot and must not dispute political decisions regarding the composition of European monetary union. The central banks were not the ones who decided which countries would adopt the single currency. Only democratically elected bodies can make those kinds of decisions.

***So the ECB's financial stability mandate does not mean that it has to do everything in its power to save the euro?***

There is of course a close link between monetary and financial stability. Even so, price stability takes clear precedence for the ECB – it is our primary objective. Our financial stability mandate is secondary to this aim and is not a blank cheque. Central banks themselves cannot guarantee some of the conditions which allow them to fulfil their tasks; these conditions must be ensured by the governments of the member states. The central banks' mandate also has its limits in this context.

***If the ECB had not set up the government bond programme and politicians had done too little to remedy the problems, causing the crisis to escalate, wouldn't the ECB have had to intervene anyway to stabilise the financial system?***

I don't believe that the system would have collapsed if the ECB had not set up the government bond programme. In the past, many euro-area countries coped with yields of 7% or more – not just for new bond issues but also on average. Today, the affected countries could likewise ride out higher yields on new issues for a certain length of time. In the present

situation, it is vital to do what is necessary to ensure that investor confidence improves and risk premiums fall. We have to ask ourselves whether central bank bond purchases create the right incentives. The rescue packages can help us to buy time where necessary.

***That sounds like an argument for the kind of conditionality built into the new ECB programme: acting only when governments have initiated reforms.***

If one does choose to embark on a programme of that nature, credible and strict conditionality provides a certain degree of protection.

***Is this a good way of sending the ball back into the politicians' court so that they finally do their homework?***

It would seem so at first glance – but we mustn't overlook the risks involved. Monetary policy is in danger of becoming dependent on political decisions, and it is unclear whether it will then be able to free itself from the clutches of fiscal policy. This ultimately binds monetary policy into the rescue packages. In addition, conditionality has to be credibly enforced; that remains the main challenge.

***What about the risk of the ECB itself incurring losses as a result of the new government bond programme?***

That's another problem. One of the principles of our monetary policy is that our transactions should entail the least risk possible. Yet the Eurosystem will take on substantial risks by making these purchases.

***The Swiss National Bank also took exceptional measures in exceptional circumstances by introducing a floor on the Swiss franc's exchange rate with the euro.***

It makes no sense to compare the SNB's exchange rate floor with the Eurosystem's government bond programme. The euro-franc floor does not, for example, spread risks among taxpayers of different countries, while the Eurosystem's programme does.

***The Swiss are now debating how to exit the minimum rate regime. What is the ECB's exit strategy for the government bond programme?***

That point will be crucial to ensuring credible conditionality and is currently under discussion.

***The ECB will probably soon be given an additional mandate for banking supervision. How do you view this development?***

In principle, the banking union – which encompasses European-level banking supervision – is a useful addition to European monetary union. Its main aim is to ensure that the euro-area financial system is more stable in the future, and that will also benefit the euro area's single monetary policy. However, I see the banking union as a project for the future and not as a solution to the current problems. A communitisation of legacy balance sheet burdens would be tantamount to a transfer payment and should not be concealed under the cloak of the banking union.

***But making the ECB responsible for banking supervision is not the only conceivable option. Aren't you concerned about the ECB having conflicting objectives?***

That is a crucial issue and it also featured very prominently in the debate on supervisory reform in Germany. We need a clear separation between supervision and monetary policy to ensure that there are no points of conflict with central bank independence and the objective of price stability.

***How do you view the ECB's institutional framework in light of recent events? Is the "one man, one vote" principle for monetary policy decisions still right?***

The principle is right as long as monetary policy does not take on substantial fiscal tasks. If we return to traditional monetary policy, this will cease to be an issue.

***How do you view the issue of transparency? Should the minutes of Governing Council meetings be published?***

Central banks manage a public good and should therefore be accountable to the public for their actions – all the more so if they are operating at the limits of their mandate. They then have an even greater obligation to explain that they have looked at the risks and side-effects of their policies. But transparency is not simply a matter of publishing minutes.

***Is that something you would oppose?***

That depends on the proposal. I see little reason not to disclose more of the arguments discussed by the Governing Council – without naming individual Council members.

***Why is it that the usual confidentiality of Governing Council meetings was loosened in your particular case, with Mario Draghi stating quite openly that you opposed the government bond programme?***

I have no problem at all with his frankness. As I've said, I'm convinced that more transparency is a good thing, especially in the present situation.

***Germany's Finance Minister Wolfgang Schäuble appears to disagree. He accuses you of undermining the ECB's credibility by being so open about your views.***

The general public are well informed – we owe it to them to be frank. A central bank is credible if it takes people seriously and provides them with truthful information. There is no point in trying to dress up the facts.

***But isn't it frustrating for you being convinced that your position is right but unable to persuade the Governing Council to come round to your view?***

Discussions can evolve and progress. I wouldn't rule out seeing more support for my arguments in the future.

***How do you envisage your future role within the ECB Governing Council?***

Despite all the commotion about government bond purchases, it would be very wrong to imagine that I'm always in the minority with my views in the Governing Council, or indeed that the Bundesbank is always in the minority within the Eurosystem. The majorities on many other issues are very different, and on some there is no dissent within the Council at all. That is precisely why I find it so important to garner support for my position on controversial issues.

***In view of your current crusade, can you see why your predecessor Axel Weber eventually decided that enough was enough and resigned?***

I do understand his very personal decision, and also that of Jürgen Stark. But I'm in a different situation. I took on this position after Weber resigned, which meant that I knew what I was letting myself in for. That means I have to accept that interviewers will invariably ask when I'm going to resign. But resigning is not an option for me because I'm convinced that I can do most to ensure a stable euro in my current position.